THE MAGAZINE OF WALL STREET
and BUSINESS ANALYST

Member of Audit Bureau of Circulations

Volume 73, No. 4 November 27, 1943

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TO CHANGE ADDRESS—Write us your name and old address in full, new address in full and get notice to us three weeks before you desire magazine sent to the new address.

EUROPEAN REPRESENTATIVES—International News Co., Ltd., Breams Bldg., London, B. C. 4, England.

Cable Address—Tickerpub.

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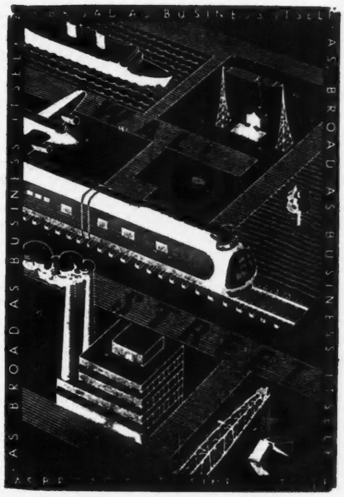
It is estimated that 70 per cent of our industrial production is now for war. The figure itself is one measure of the huge reconversion job that will face us when peace comes, beginning with capitulation of Germany. But the dimensions of the problem vary greatly from industry to industry, as thoroughly analyzed in the article on page 168.

THE MAGAZINE OF WALL STREET

C. G. Wyckoff, *Publisher* LAURENCE STERN, *Managing Editor*



The Trend of Events

STOP, LOOK AND LISTEN . . . Those who can't see the forest for the trees—and that includes organized labor, the farm bloc and those in business and in Wall Street who are speculating on inflation—apparently are blissfully unaware that the "gas" supply for their expected continuing joyride is already beginning to decline.

The "gas" is the Government's total expenditure for war. This reached its monthly peak in June at $7,688,000,000. For October it was $7,105,000,000, or $583,000,000 per month under the top figure. If you think this is a temporary "lull", take note of the announcement that the War Department has scaled down its previously projected spending for the current fiscal year by $13,100,000,000 and that it plans to return this sum to the Treasury. In due time the Navy will be heard from, since it may safely be assumed that the Army has not been alone in over-estimating its need for funds. Some 10,000 war contracts—with an estimated value of more than $6,000,000,000—have already been cancelled.

Moreover, from an inflationary standpoint, the "gas" we are getting today is of much reduced power. That is, the Treasury is no longer swelling the nation's purchasing power by creating billions of new money through the credit mechanism of the commercial banks but, instead, is getting its funds from "old" money through tax revenue and absorption of savings by bond sales to others than commercial banks. It is conceivable that it may retain this significantly changed status through the end of the war, as is explained in our special article on page 175.

Nothing said here implies a sudden or drastic crumbling in the swollen structure of national income. But the evidence does clearly suggest that the basic fuel for the inflationary fire is definitely tapering off in quantity and "quality". Together with the aprpoaching end of the war in Europe—whether it comes by spring or not until summer—this implies to our mind that the joyride of the labor unions and the farm bloc is living on borrowed time, even though it now bids fair to get faster and merrier for another mile or two.

WAGE-PRICE "CRISIS" . . . One of the most overworked words in the English language is "crisis". For the sake of sane perspective, it would be illuminating to go back through the newspapers of the past decade and note how many dozens of times a "crisis"—if not "crucial crisis"—has been proclaimed by the headlines on authority of supposedly responsible and

informed officials, politicians, commentators, etc. For most of us, life went on—not so much changed.

Now we have another one, or more of the same: price-wage control is about to collapse, so we are told. Mr. Raymond Clapper, whose popularity as a columnist has rested largely on a reputation for keeping his feet on the ground, proclaims—and he is not alone—that "apparently we are set to be taken for a cynical profiteer's ride into uncontrolled price inflation."

We disagree—partly for the reasons cited in the preceding editorial, partly because we doubt that Congress is quite as crazy as Mr. Clapper implies it to be, partly because we have greater faith in the intelligence and determination of the Administration than Mr. Clapper currently seems to have.

We do not approve of further concessions to the labor and farm pressure groups, but neither do we figure that all will be lost thereby. From the start the Administration's defense has been elastic, and still is. It will bend, but not collapse. Therefore, at this time of much heated clamor and loose talk, we are going to stick out our neck and predict that the retreat now in the making will be to a newly prepared position, that the present bitter fight between Congress and the Administration on food subsidies will pave the way for a compromise on the 1944 program, that moderate general increase in wages and farm prices will represent a reconstituted defense line rather than an uncontrollable "spiral," and this new line will have a better than even chance of holding until the war in Europe ends—after which the columnists will be talking about a different kind of "crisis": one that will have to do with the threat of deflation in employment, purchasing power and farm prices. And when the time comes, no doubt that "crisis" also will be exaggerated in the heat of debate.

RAW MATERIALS STOCKPILING . . . The idea of post-war stockpiling of vital raw materials from abroad appears to be gaining ground in Administration quarters. What with the heavy drain on our own resources due to immense war demands, such proposals unquestionably have much appeal. Resultant benefits are expected to be threefold: (1) Rebuilding of our own war-depleted resources; (2) The fostering of export trade by accepting large imports of such raw materials in return for our goods; (3) Providing a means for a partial eventual squaring of lend-lease accounts. All three are laudable and point 2, it seems, holds no less importance than point 1 in current official thinking.

Thus, it is suggested that Britain after the war supply us free of charge with large tonnages of rubber from the Malay States, and oil from the Middle East. Whatever the mechanics of such an exchange, it must be considered that Britain after the war will probably need all the dollars she can earn through regular sales to pay for urgently needed materials and foodstuffs. This being so, the plan would be feasible only if she manages to force production far beyond anything attempted before.

The scheme may stand a better chance when applied to Russia which might supply us with vitally needed minerals such as manganese and chromium in return for heavy machinery.

Most likely, foreign partners able and willing to participate in such a scheme can be found but the idea may well founder on the rocks of home opposition which may look askance at perpetuation of Government intercession in regular trade procedure, though, if properly handled, we can see nothing objectionable. Actual stockpiling of oil is of course hardly feasible owing to scarcity of storage facilities; rather, acquisition and exploitation of foreign oil properties would have to be undertaken which may not find favor among purely domestic petroleum producers.

Successful application of the idea would appear to hinge largely on the mechanics evolved to carry it out. While eminently desirable from a national viewpoint, practical as well as political considerations may considerably limit its scope.

OUT OF BALANCE . . . In quite a few countries commodity prices have risen much more sharply than in the United States. The League of Nations Monthly Bulletin observes that, as compared with the first half of 1939, the wholesale price level here has increased by 35 per cent, whereas in Great Britain the rise has been 66 per cent. The bulk of the latter rise occurred relatively early in the war period, with the situation now apparently under fairly effective control.

Prices in neutral countries, both in Europe and Latin-America, have gone up even more sharply than in belligerent countries. Thus, there has been a rise of 79 per cent in Sweden, 105 per cent in Switzerland, 126 per cent in Portugal, 98 per cent in Argentina, 105 per cent in Peru. In German-occupied nations, and in China, price inflation is in the galloping stage.

Under war-time controls, the foreign exchange rates do not reflect these drastic and widely varying changes in internal price levels. Nevertheless a greatly unbalanced situation has been built up and unbalance may be further aggravated before the war is over.

The end of the war will set in motion powerful forces pressing toward a workable price equilibrium between the nations. It is to be hoped that the deflation of excessively high price levels will constitute the major part of the corrective—but deflation is painful and politically unpopular in all countries. For countries with price levels out of line on the high side, the only alternative to deflation would be revaluation of currencies.

As I See It! BY CHARLES BENEDICT

SHADOWS OF EVENTS TO COME

The eyes of the world are focused on the Mediterranean, where military movements are holding their breath awaiting the momentous decisions to be made by President Roosevelt, Stalin and Churchill.

The epochal meeting in Moscow is about to be translated into concerted action, and the Nazis are adjusting their lines—shortening and consolidating their position, to prevent a decisive knockout blow, and to secure the time necessary to enable them to readjust their political front preparatory to peace maneuvers. In the meantime, they are resorting to the makeshift of devious bargaining with the object of delaying the moves called for by United Nations strategy.

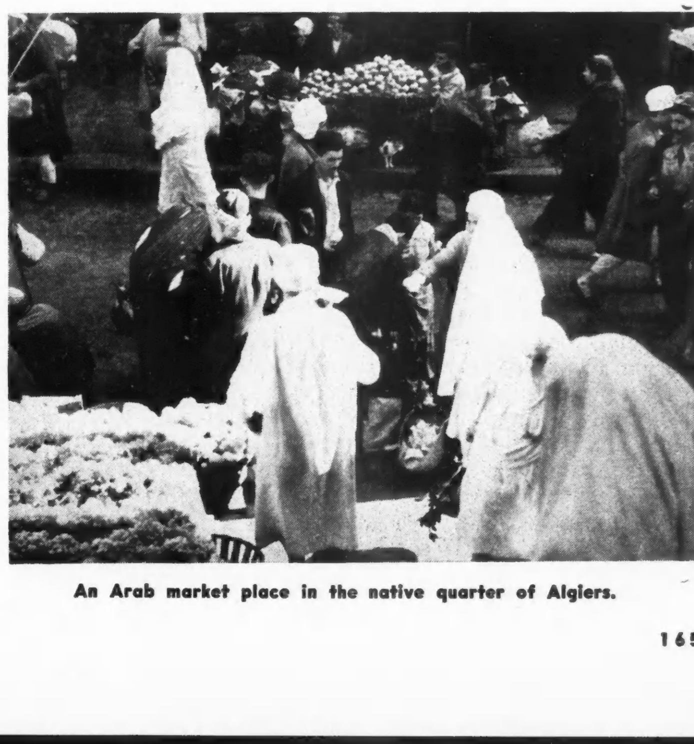
That there are still important political obstacles for the United Nations to overcome is evidenced by Franco's action in congratulating the new Japanese puppet President in the Philippines, which was followed by criticism of the Moscow pact by the National Catholic Welfare Conference. Whether these two acts are related, or whether the latter was in response to Russian Ambassador Oumansky's statement regarding the 1939 Polish frontier, is not clear. At any rate, it shows that the Vatican is still uncertain regarding Russian intentions.

French activities in Lebanon, too, are not helping the Allied cause, at a time when they are preparing for the moves in the Eastern end of the Mediterranean. To stir up the Arab world at this moment casts doubt on DeGaulle's qualifications as leader of the French, and his sincerity as far as the United Nations are concerned. If this move was designed only to secure favorable consideration of French demands, it was a dangerous, ill-considered action. If it was an attempt to stage a rebirth of the French colonial empire on African soil, it was badly timed, for such activities at this crucial moment can only help the Axis and stir up trouble for the Allies. The British-French quarrel over the situation with the charges of political intrigue on one hand—and imperialism on the other—only confuses the issue.

All in all, recent events in the Mediterranean, which includes the reports of new activity by Von Papen who seems to be able to move about with impunity from country to country—the failure of the British to hold Leros—and the delay in Turkey's entrance into the War—point to influences working for the Nazis. Turkey in particular is subject to demonstrations from both sides. The Moscow conference brought the Turks quickly to the brink of action on the side of the United Nations. The failure at Leros was designed by the Nazis to stop them by showing that they did not lack in fighting qualities or power, and that they were prepared to meet any move against them by the Turks. The British lost important island bases that would have been very useful if the Turks decided to continue to play safe in their role of friendly neutrals, which has been so profitable financially to them.

So long as we are occupied in the game of political move and counter-move, it seems to me we can expect little military activity in the Italian theatre if we continue our policy which has always been to smooth the way for our armies so as to expend a minimum of man-power.

The only really bright note on the political front was Secretary Hull's ad- (*Please turn to page 212*)



An Arab market place in the native quarter of Algiers.

Cross-Currents in Year-End Market

We regard the current rally as a technical interruption in a probably unfinished intermediate reaction, with the previous average lows likely to be tested before long. Therefore, we repeat our previous recommendation to defer longer-term investment purchases for appreciation.

BY A. T. MILLER

For perspective: it is now more than four months since the averages made their highs last July in a fifteen-month advance which amounted to approximately 53 points in the Dow industrials, 15 points in the rails and nearly 12 points in the utility average.

The subsequent pattern to date has been one of successively lower highs on the rallies, successively lower bottoms on the declines. At the lowest point yet reached on this presumably "intermediate" movement, the industrial average was down 18.58 points from its high (closing price basis) or by about 12.7 per cent, which represented a cancellation of 35 per cent of the previous total rise. The rail average was down by 6½ points or about 17 per cent, cancelling 43 per cent of previous total rise. The utility average was down 2.15 points or 9.6 per cent, a cancellation of a bit more than 18 per cent of previous total rise.

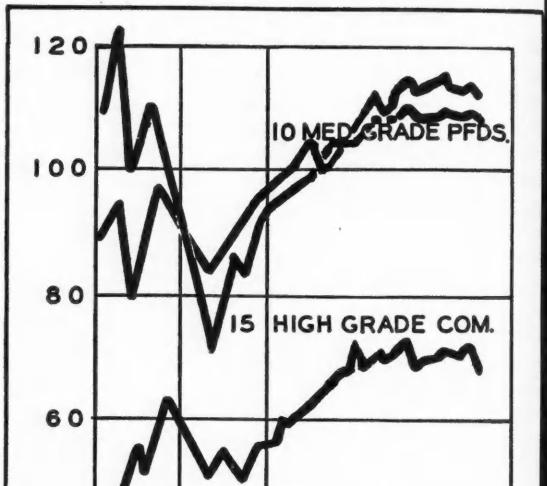
The lows to date were made on Nov. 8 in the rail and utility averages, on Nov. 17 in the industrial average. Toward the end of last week, continuing to this writing, there developed the strongest and broadest rally in some weeks. This would indicate that at the recent lows the market had been over-sold—but whether it was technically over-sold on more than a minor trend basis remains to be demonstrated. The orthodox chart interpretation—or assumption—will be that it is another minor upturn within an intermediate downtrend and hence that the market remains a sale on rallies.

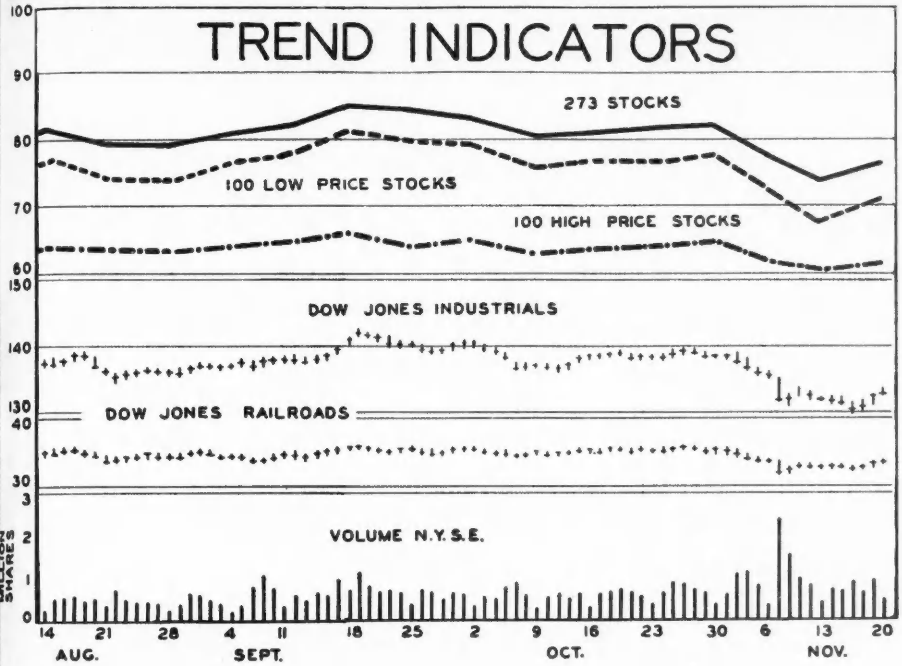
We must repeat that we have no strong conviction about the nearby market outlook. For many weeks stock prices have been reflecting primarily the confusion and uncertainty in the minds of investors and speculators concerning the duration of the war and what the period following German defeat holds for business and corporate profits. The market is already, in short, in its own transition period. Confusion and uncertainty make people cautious, hence the net effect has been bearish.

However, the present speculative position is very light and on a *technical* basis the case for a cumulative spiral of liquidation is not a strong one. This leaves the market to blow hot and cold with the news and with week to week shifts in trading sentiment. The fact that the breaking, on Nov. 8, of the long-held 134 level by the industrial average was followed only by 3¾ points additional decline on low volume, and no additional decline in the rail or utility averages, as well as the further inconsistency that a brisk rally is now in progress, are merely further samples of the psychological confusion existing.

Why is the market rallying?

Some may argue that the temporary military stalemate in Italy and the recent set-back suffered in one sector by the Red Army tend to deflate early peace hopes; and that, because the whole decline since July has been geared to "looming peace", anything pointing the other way calls for rally. Without denying this, we would pin very little faith to it and certainly as a matter of longer-term investment





olicy we would ignore it. Whatever the exact timng of peace in Europe, the stock market will not gain recapture the mood with which it regarded he war prior to the fall of Mussolini.

In the long rise up to July the market was disounting peace and general expectations of a postwar business boom—a process aided by dynamic expansion in the supply of investible funds and by much alk of "inflation." However valid the thesis of ost-war boom may be, it has been our view for some ime that the market would run into trouble when peace began actually to loom on the horizon, not nly because all stocks except "war issues" had for many months been discounting the United Nations ictory and the assumed post-war prosperity but also ecause it seemed plain that, as the time approached, here would be investment and speculative uncerainty, if not considerable apprehension, regarding he degree and duration of the decline in industrial ctivity during the "changeover" period.

The price decline already experienced has partly iscounted the coming adjustments. We doubt they ave been fully discounted by the prevailing level. ince the scope of the coming drop in industrial production is highly conjectural—with opinion varying idely—we have no conviction at present as to what evel of the averages *would* adequately discount it.

Unless the speed of the thus far irregular, zig-zag ownward movement is increased substantially in he near future, it is doubtful that the maximum market readjustment to peace and industrial transition will be completed this year. Further reaction nto December—a familiar pattern in most years nd helped along by sales for tax adjustment purposes — would, of course, enhance chances for a good year-end trading rally, further delaying the more basic market adjustment. Within the limited time now remaining, we are inclined to doubt that 1943 will see the industrial average reach the 122-120 area at which quite a few analysts figure the maximum transitional decline should have been seen.

While many observers continue to advance "inflation" as a basically bullish market factor —if not also related to the current rally— it is curious to note that some of the same people also argue that the announced cut of $13,000,000,000 in Army spending during the rest of the present fiscal year is bullish because it makes certain that taxes will not be raised beyond the quite modest limits provided in the pending house-sponsored bill. We can't see it that way. In the first place, it has been evident for weeks that tax prospects would give the market nothing to worry about.

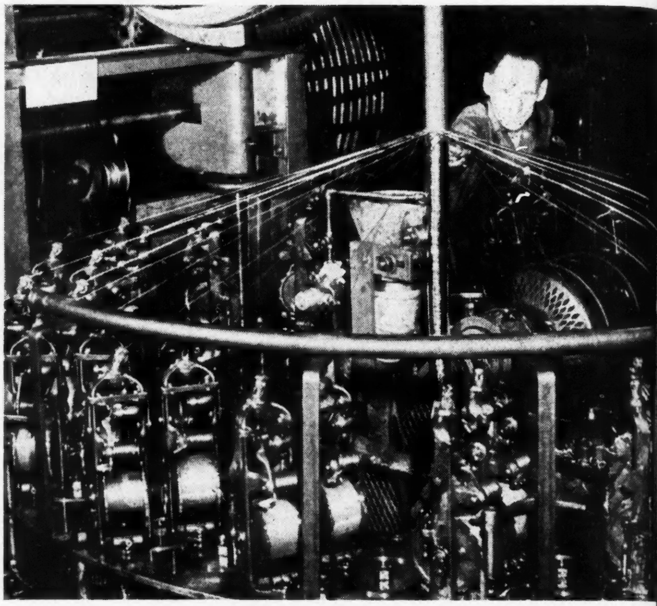
Certain it is that—partly because war spending is substantially less than was budgeted and partly because tax revenues are running well above earlier Treasury estimates — investible funds are not now being created by bank deposit inflation at anything like the pace of 1942 and the first half of 1943.

Of course, there is one very hopeful aspect about the coming industrial readjustment period that was never present before in a production slump. It is that, regardless of how much decline there may be in the Reserve Board production index, there can not be a proportionate decline in corporate profits. For at least two years—probably more than ample time for readjustment and the beginning of renewed economic expansion—the various tax "cushions" about which this publication has frequently spoken would importantly sustain corporate earning power.

On the other hand, it is to be doubted that the investing public has yet sold itself on the matter of tax cushions; and earning power derived in this abnormal way may well command less confidence than "regular" earnings.

We have for some time been advising that longer-term investment purchases be deferred and we see no reason yet to alter this view.

Varying Reconversion Problems Of The Leading Industries



Braiding machine for covering General Electric ship cable

Where There Are None

Where Minor

Where Most Difficult

BY E. A. KRAUSS

There is quite some difference between preparing for war and preparing for peace. The former demands organization of industry into as well-meshed a production unit as possible. The latter, that is reconversion, means unscrambling that unit and returning its components to their proper places in the national economy. In the process, a host of problems are bound to arise. Some are relatively simple, others well nigh insuperable. Many businesses, and in fact many industries, will face new conditions, new kinds of competition. Their problem often is: Reconversion to what? Thus while the conversion task was difficult, reconversion is likely to be more so, in a number of industries.

In 1942 we devoted some 55% of our production to war; this figure has since risen to about 70%. War expenditures are currently running at an annual rate of some $90 billion. With the advent of peace, not only will we have to reconvert this major portion of our productive resources to civilian output but it is essential that we maintain a correspondingly high over-all level of production despite the withdrawal of war expenditures. These two simple facts aptly describe the magnitude of the reconversion job.

It is practically certain that the war will not terminate on all fronts simultaneously. Next spring or mid-1944 is now the most widely accepted time for the end of the European phase. Thus before global victory is won, there will be drastic shifts in war requirements and the incidence of at least partial reconversion is approaching fast. Recognizing this, both industry and Government are now actively planning ahead.

With the Far Eastern war alone to be fought, many plants, and perhaps entire industries, will be in a position to shift back to civilian output; altogether it is estimated that only about 50% of the capacity now engaged in war production will then be needed. War spending is expected to shrink to an annual rate of some $65 billion, or 35% below current levels; and the drop *may* be more. Army programs would be cut drastically with ordnance output dwindling to almost nominal levels. Even merchant ship building, in that event, is expected to be trimmed to a mere fraction of present peak output, with demand centering principally on naval ships and equipment, heavy bombers and naval type airplanes generally.

Wherever possible, war plants no longer needed will be quickly shifted to civilian production to ease shortages. Much of the surplus machinery, according to tentative plans, will be made available for export to help with the reconstruction task abroad.

As plans stand now, no sharp break between war and immediate post-war operations is envisaged; rather reconversion will emerge gradually which should greatly stabilize the process as a whole. However, this prospect also has its disadvantages. Already it has created considerable worry in many sectors of industry as to the prospective *order* of reconversion. Government tendency, it appears, is to hang on to the most efficient producers, allowing others to reconvert. This, some argue, would penalize the efficient by giving his competitor the jump on peace-time markets. Also, West Coast manufacturers fear that Eastern producers may get first crack at post-war markets because West Coast plants, closer to the Pacific theatre of war, may have to continue longer with munitions output.

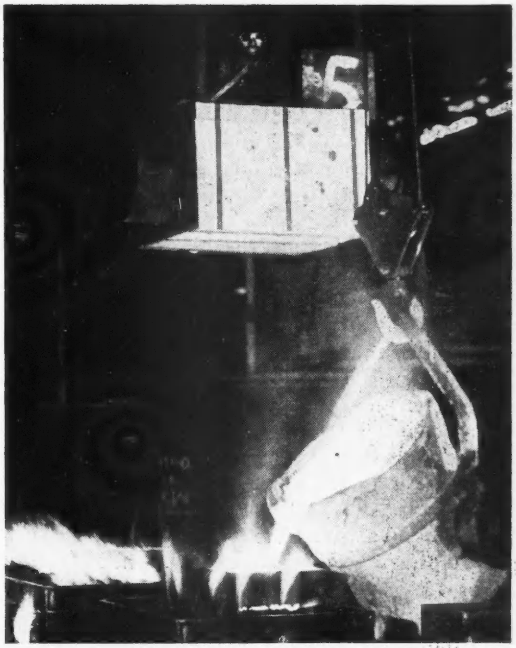
Obviously, Government assurance on these and

other points is important, if reconversion is to run smoothly. One is the question of Government co-operation in permitting complete rather than piece-meal reconversion of individual companies; whole plants might otherwise be tied up by a relatively small residue of war orders. To avoid this, it is planned to concentrate gradually war production in plants built specifically for that purpose, releasing other, mostly private, facilities for quick reconversion. But even with maximum benefits from such a policy, serious problems will arise in a good many instances.

Most industries, to meet war demands, were compelled to expand productive facilities materially. This poses one of the most interesting questions: How much of the new capacity will be reconverted? The answer should serve as an admirable barometer of industry confidence in the post-war outlook, of industry determination to provide maximum employment. A tentative answer to this question has just become available in the form of a survey recently undertaken by the National Industrial Conference Board. It shows that four out of ten firms questioned are planning 100% reconversion of plants and productive facilities. About 45% of the non-durable goods companies answering the Board's questionnaire, and about 39% of all durable goods producers contemplate complete reconversion of war facilities, with steel, electrical equipment, petroleum, shoe and leather, and textile companies prominent in these categories. Reconversion of more than half of their plants and facilities is expected by about 15% of the companies surveyed. Outstanding in this group are concerns in the automotive, machine tool and office equipment industries. About 6% of the companies reporting, including concerns in the chemical and metal products industries, intend to reconvert less than half of their war-time facilities.

Industry Shows Confidence

Though probably incomplete, and tentative to an unknown degree, these figures speak an eloquent language. They bear witness, first of all, to the confidence that prevails in consumer goods circles as to post-war prosperity in their fields. But surprisingly, they also reveal prevalence of a fairly optimistic outlook in capital goods industries, such as steel, electrical equipment and machine tools. In the latter, especially, war-time expansion was enormous, and plans for reconverting more than half of existing facilities would point to post-war capacity considerably in excess of pre-war. No less important, these figures attest to industry's earnest efforts to maintain maximum production, and thereby employment; that is, a general production level considerably exceeding pre-war peaks. Reconversion intention, percentage-wise, is naturally lowest in industries where war-time expansion was greatest, and overcapacity thus abnormally large, and cannot profitably be returned to peace-time use. On the whole, the results of the Board's survey must be regarded as a favorable augury.



Pouring cylinder blocks at the Studebaker foundry

In appraising reconversion problems and difficulties, it must be stated at the outset that for the majority of industries, the change-over presents no major problems though conditions naturally vary. It is estimated that over 25% of the industries participating in the war effort have no plant reconversion problem since their war contracts call for goods or services identical with, or similar to, those of peace-time. These comprise an important segment of our economy and include such industries as food products, clothing, meat packers, baking and milling, soft drinks, coal, drugs, leather, shoes, air transport, metal mining, dairy products, petroleum, paper, brewing and distilling, retail trade, railroads, soap, sugar, tobacco and utilities. With most, engineering or technical problems are entirely absent; in some few cases they are quite minor.

Altogether, it is estimated that about one-third of industry can return to peace-time production immediately or in shortest order. Some, however, may find their normal transportation or distribution facilities disorganized; while production can be resumed at once, the distribution end may require a period of readjustment. This applies especially where sales organizations must be recreated or where distribution facilities such as cars and trucks are inadequate.

Little time for the change-over, generally less than three months, will be required by many major industries. Thus reconversion will be rapid in the steel, textile, rubber tire, building, container, farm equipment, paint, household furnishings, electrical equipment, chemical and foundry industries.

Four to six months will be required by the automotive, heavy machinery, machine tool, metal fab-

ricating, railroad equipment industries and some carpet makers.

More than six months will be needed by the office equipment industry, possibly a full year, while major problems will have to be faced by the aircraft manufacturing and shipbuilding industries with extended periods of readjustment likely. With the exception of the latter two, reconversion as a whole, technically speaking, should not be too difficult and only a small percentage of concerns may require outside financing to tide them over the readjustment period.

The foregoing estimates are of course tentative and subject to change, depending on various conditions; also they may not apply to all companies alike within a given industry. Variations will occur in line with character and intensity of a company's war production activity. Other, non-technical matters are also to be considered.

Even where no technical reconversion problem exists, difficulties of a collateral nature may arise having an equivalent effect. Take for instance the drug and pharmaceutical industry where technical problems are totally absent but the inventory situation is potentially dangerous. Such companies will have on hand, when the war is over, vast stocks of crude and prepared drugs, often acquired at high prices, in various stages of processing for the Armed Forces; the latter themselves will have large inventories. Until these are marketed in an orderly fashion, return to normal business is hardly feasible. However, foreign demand, especially for medicines and a variety of important drugs, may be great and thus the inventory problem may be less than after the first World War when dumping of surpluses demoralized the drug market for a considerable period. An inventory problem also threatens in the shoe and leather industry but it may also be minimized by export or lend-lease demand.

Just the opposite, lack of equipment, will be the initial problem in the air transport industry. In the petroleum industry, transitional difficulties are small and the expectation is that the industry will be able to find full post-war use for its expanded refining capacity.

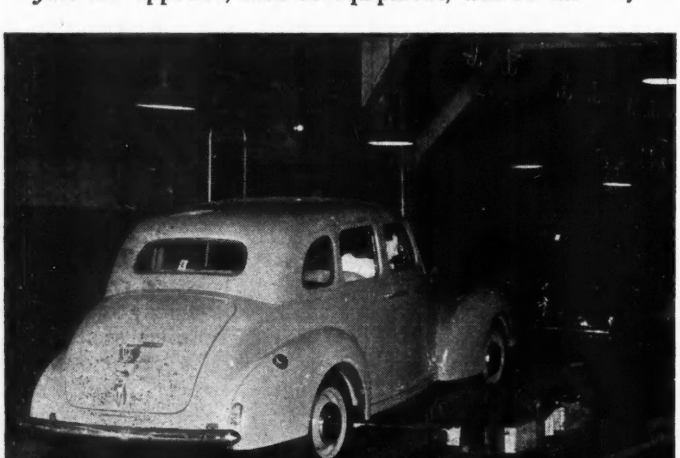
Retailers have no reconversion problem but they may continue to suffer from certain merchandise shortages and prospects are that rationing, as well as price ceilings, will be retained for some time after the war. Thus a transitional problem will exist, possibly for many months.

Various Collateral Problems

Return to normal activity will be almost immediate for most food product companies but canners presumably can get going only after having secured containers of proper sizes which may take some time until an adequate stockpile has been built up by the container industry, now making chiefly large-sized containers for the military instead of the conventional smaller cans normally used by the canning and packing trades.

Where technical or engineering problems do exist, their range is wide indeed. The problems of the aircraft industry have been discussed in great detail before. Here reconversion presents major difficulties and no estimate of the period required can be made. A variety of factors, largely unknown, will have to be considered, such as future Government and military policy, post-war plans of individual companies many of which may wish to enter other fields; also the future industry line-up, prospective mergers and the resultant division of markets among the remaining companies. These are longer range factors. Once the European war is over, production emphasis will probably be on large bombers, naval and carrier planes, that is the type of planes made by such companies as Glenn L. Martin, Consolidated-Vultee, Lockheed, Boeing, Grumman and Brewster. On the whole, reconversion with the aircraft industry will not become really topical until termination of the entire war, still completion of the European phase may entail important shifts, and as a preparatory measure, the industry has become greatly "inventory conscious," is beginning to unload huge quantities of excess materials, supplies and machinery which in one instance amounted to over \$10 million. The idea is to keep inventories within the 60 days limitation set by the Government which will not compensate for inventory losses suffered on excess supplies. For the industry, this policy can only be beneficial, assuring greater liquidity. Renegotiation, however, remains a big problem.

From a technical standpoint, the reconversion problem of the automobile industry is momentous. The time element is governed partly by factors over which the industry has little or no control, such as methods of winding up war orders, speed of removal of Gov-



End of final assembly line. First movement of a new car is in reverse gear

ernment-owned machinery from plants and the order in which the various plants of a company are freed from war work and can be readied for peace work. The order and speed of the freeing of plants of parts suppliers is a collateral problem, closely tieing into the transitional problem of their client industry. The matter of simultaneous plant release is thus a major one.

Generally, reconversion is expected to take 4 to 8 months but to achieve this schedule, the automobile producer counts on swift contract termination, quick permission to clear plants of Government machinery, prompt conversion of inventories into working capital and ready access to raw materials needed for resumption of automobile manufacture. If any of these conditions are absent, reconversion will take longer. Yet some control over materials is desirable beyond the war's end to prevent a wild competitive scramble detrimental to planned production. It is held essential that initially only 1942 model automobiles are made.

General machine room for making aircraft chairs, wheels, etc., at one of the Bendix Aviation plants

Should someone bring on the market a new model, the entire industry, in trying to counter this move at once, would require 18 months, instead 4 to 8 months, to get underway. Hence freezing of 1942 models, it is suggested, should be made mandatory not only for the established industry but for potential newcomers as well since nothing could be more demoralizing either to the war effort or reconversion than to have everyone in the industry jittery about the possibility of a competitor jumping the armistice gun. Freezing of 1942 models, not only of automobiles but virtually all consumer durable goods, for a stated period after the war is thus a definite possibility and desirable for a variety of reasons. Meanwhile no new cars are in sight until after termination of the European war.

Varied Reconversion Speeds

General Motors estimates it will take 4 months after the war ends to begin production, and an additional two months until full production is underway. It figures that reconversion will cost $250 million, an enormous amount. Against this, the concern has special reserves of $75 million, and working capital of some $728 million. Reconversion speed will be similar for the other two leaders in the field, Chrysler and Ford; the smaller independents may take somewhat longer, with time required probably ranging from 4 to 12 months but much depends on how war orders taper off and on the freeing of plants. Some of the independents, too, may have initial difficulties in recreating their dealer organizations, disrupted by the war.

In the automotive parts industry, reconversion speed will vary with the type of war production; relatively little time, no more than sixty days, will be required where output ties in closely with normal operations. Elsewhere the maximum should be about 4 months, with few exceptions. Stewart-Warner may need up to six months, but Borg-Warner figures on no more than sixty days. Possible shifts in pre-war relationships between parts suppliers and leading automobile makers inject a certain element of uncertainty in the individual outlook picture but generally a return to former industry positions is anticipated.

Reconversion will be rapid in the building industries, in fact it has already begun. Makers of synthetic building materials should be fully reconverted within sixty days, some may take even less. The cement industry of course has no problem. But longer periods, possibly up to 4 months in individual instances, are required by makers of building hardware, stoves, plumbing, etc. most of whom hold large war contracts and converted much of their capacity to war production. But on the whole the change-over should be fairly rapid.

In the chemical industry, technical problems are small. Makers of explosives will of course experience the expected collapse of demand when the war ends and those of them intending to branch out into other lines may encounter certain difficulties. In the chemical industry proper, overcapacity in heavy chemicals may cause an initial letdown until conditions are stabilized but elsewhere it is rather a question of expansion than reconversion that has to be faced. Many branches of the industry consider themselves underbuilt and heavy post-war demand is anticipated for plastics, nylon and other synthetics some of which are not yet on the market. A major post-war problem thus will be the marketing of new products, various shifts in production costs due to new materials and processes and their effect on sales of existing products.

The container industry should lose little time in reconverting; most arma- (*Please turn to page 210*)

The Question: *What Can We Expect of Foreign Trade After the War?*

Answer: Very Little as seen by WARD GATES

SOMEWHERE I recently heard it said that when it comes to foreign trade, Uncle Sam is much in the same position as the man in the poker game who has all the chips, yet wants to keep the game going. This is only too true. The dilemma is clearly recognized in foreign trade quarters and found eloquent expression on the occasion of the National Foreign Trade Convention held in New York last month. Exuberance was not its keynote; rather, an atmosphere of somber realism pervaded the assemblage. As far as solving the dilemma was concerned, the convention proved a failure which need surprise no one.

For after all, the complexities of post-war foreign trade promise to be such as to stump the most expert, and prospects for revival of brisk international commerce on a *sound* basis appear extremely dubious. Foreign traders have no illusions on that score. Significantly, the most optimistic note is struck by the Government, as witness the recent release by the Department of Commerce of a study "Foreign Trade After the War," offering some attractive round figures for the edification of those interested. Envisioned as potentialities—but not definitely forecast—were annual post-war exports of $7 billion and imports of some $6.3 billion. But case-hardened foreign traders shy away from such optimism.

Recent discussions of the outlook have revealed two sharply divergent schools of thought. One, reflecting a good deal of prevalent thinking rushes to the conclusion that a huge volume of post-war foreign trade is a logical expectation both on the strength of our leading industrial position, untouched by the destructive breath of war, and by virtue of our dominant financial stature which it is believed will in itself insure gravitation of trade towards our shores. The other school of thought, as yet less vocal but rapidly gaining adherents as the difficulties ahead become more apparent, is far more conservative. On its outer fringe, one finds even those who would discourage, or minimize the need for, post-war exports as contrary to our best interests. While the latter view strikes one as extreme, I thoroughly disagree with the unbridled optimists who foresee an era of flourishing international commerce emerging from the ravages of war. This in itself would be a paradox.

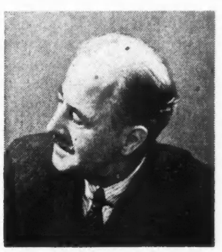
Granted, potential demand for American goods will be great but demand alone will not shape export volume. The former will be far in excess of the aggregate of products which the world will be able to offer in exchange. This being so, how is the world going to pay for them? Shorn of most of their wealth, faced with the necessity of rebuilding their productive apparatus, burdened with tremen

dous taxes and reconstruction costs, how are the war-torn countries of Europe going to finance their imports? The answer is if we continue large-scale lend-lease, if we are ready to grant huge Government or private credits, then, and only then, can we expect large exports after the war. Even then, their volume is subject to limitation by the amount of available surpluses after satisfaction of our own large deferred demands in many fields.

I believe it difficult if not impossible to induce Congress to continue lend-lease in volume for other than a short emergency period. The country as a whole would no doubt be critical of large Government loans recreating huge inter-Government debts and all it implies. Nor do I think will private enterprise, our banks and our great manufacturing concerns, be willing to assume undue risks to spur exports. The European continent, impoverished and starving, won't even be able to feed its own decimated populations. Whatever resources are salvaged from the war, mainly dollar balances and gold which such countries as France, Holland and Belgium hold in the U.S., will have to be used chiefly for imports of badly needed foodstuffs, clothing and medicines. Such assets in this country owned by enemy-occupied nations amount to some $2494 million, not a large amount considering the tremendous needs that will arise. Most other European countries (except the few small Neutrals left) including Germany will be totally bankrupt, their currencies ruined, their economies exhausted. All over the continent, centuries of accumulated wealth has been destroyed and cannot be replaced, individual as well as national wealth, in a long time. Industries built by decades of toil have disappeared over a few years. The entire system of national and international exchange of goods is disrupted and it will be extremely difficult to find a workable formula for its restoration. Heavy taxes and reconstruction costs will burden war-weakened economies for decades. In short, purchasing power will be minimal, barely sufficient to sustain life. What prospects, then, of large American exports? Even were the U.S. ready and willing to shoulder most of the financial burden, the task would be too great. Nor could we deliver the enormous quantities of raw materials and goods needed. As to exports of a wide range of consumer goods, notably durables, these simply are not in the cards for a long time to come. Foodstuffs and clothing will be more urgently needed, and even for that financial help will be required.

England, too, shorn of most of her foreign investments, will encounter financial difficulties. Purchasing power of her popula- (*Please turn to page* 214)

Answer: Very Much as seen by GEORGE B. COLLINGWOOD



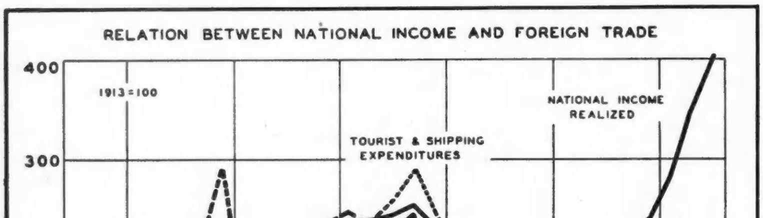
WITH the war developments becoming increasingly dramatic and with the termination of the war in Europe becoming a matter of months rather than years, the discussions of the outlook for our foreign trade after the war have been given a touch of reality. Moreover, the determination with which the four Great Powers proceeded to settle their differences at the Moscow Conference and their resolve to maintain order so as to permit a peaceful rebuilding of their economies, have brightened prospects for post-war cooperation. There is reason to hope that a foundation was laid in Moscow for a degree of international security unknown in the two decades between the World Wars. This greater international security may well pave the way for the freeing and the expansion of international trade in the post-war period.

Though the prospects for post-war international cooperation are thus brighter than they have ever been, and though freer and expanded international trade may well be in the offing, the appraisal of the future trend of our own foreign trade still remains a most complex task, since it necessitates consideration not only of wartime changes at home, but of the changes abroad as well. The wartime expansion of our industrial plant, the redistribution of income, more Government intervention in business and post-war attempts at the maintenance of full employment are only a few of the multitude of domestic influences that will affect the future trend of our imports and exports. Even more difficult is it to gauge the effects on our foreign trade of the changes abroad. Among the developments that have to be taken into account are the spread of industrialization and the general increase in self-sufficiency abroad, the shift in trade currents and international creditor-debtor position, and last but not least, the new attitude toward social problems.

No matter whether the pre-war sovereign national state survives, or whether the trend is toward some "supra-national" organization of states, the necessity to exchange goods because of the differences in climate, natural resources and productivity, or to satisfy personal needs, has not disappeared. In fact, the necessity of exchanging goods will be much greater after World War II than it was after World War I. The devastation has been more wide-spread and the postponement of nonessential demand much more effective than 25 years ago. There is no need to worry that foreign countries will not need our goods. On the contrary, we may be swamped with orders during the reconstruction period. Later undoubtedly there will develop some shifts in the demand; we will probably sell relatively more machinery, transportation equip-

ment and capital goods in general. On the other hand, the prewar tendency to export fewer textiles, cotton and agricultural products may well reappear once the immediate post-war requirements are satisfied.

Rather, our principal problem in regard to our post-war foreign trade boils down to the question of what we shall take from foreign countries in the way of goods and services in payment for our exports without, on one hand, draining them of their monetary reserves of gold, and on the other hand, without interfering with full employment here. We could, of course, always lend dollars to foreign countries with which they could pay for our goods, if we did not care to remember the lesson taught during the 'Twenties. But the investor who bought the securities has not forgotten. Moreover, the feeling is spreading through this country that in view of the gradual exhaustion of some of our resources—such as timber, petroleum and even land itself—it would



be downright foolish to keep on reducing our wealth just to sell abroad without getting something tangible in return. We are beginning to realize that the objective of trade is to get imports of goods or services performed and that the exports are really the means of payment for them.

Hence it is necessary to recognize that the bulk of the dollars that we must provide for foreign countries if they are to pay for our exports must come above all from payments for our merchandise or for services performed—tourist expenditures, shipping, etc. Undoubtedly we shall be able to continue to take in payment a substantial portion of the newly mined gold, especially if the production again rises to over $1,250 millions a year. Immediately after the First World War the gold output was valued at only about $350 millions.

Moreover, certain foreign countries are acquiring considerable dollar balances for wartime shipments to us. In Latin America alone, the combined holdings of gold and dollars are approaching some $2,000 millions. A treasury official said recently that foreign countries, in fact, hold more gold and dollar resources than they did at the time of the outbreak of the Second World War. The catch is, however, that this potential purchasing power for our goods is not distributed evenly and that the countries, like Poland, the needs of which will be the greatest, will have hardly any gold or dollars.

The prospect that the main supply of dollars available to foreign countries will come from the payments for our merchandise imports or for services performed for us, remains, however, exceedingly good. Certainly the great business activity which we expect after the war at home should lead to expanded imports. To begin with, the purchasing power that is accumulating in the hands of individuals is of unprecedented volume. If the war lasts through 1944, it is expected that the individual citizens will have accumulated some $125 billions in bank savings, currency holdings and Government bonds, in addition to what they already held at the beginning of the War. During the First World War those savings aggregated but about $25 billions. While not all savings can be expected to replace goods or to raise the standard of living, the post-war current incomes are likely to be higher and if we are to have full employment, also better distributed. A total "national income produced" of some $120 billions which after subtraction of taxes will leave to the individuals some $110 billions to spend, is not at all impossible.

The accumulation of savings—especially by people with small incomes—is likely to influence spending habits and in turn also the flow of imports. As people have more money to spend, personal tastes develop; the result will probably be larger imports of tropical food products, superior textile and leather goods, china, glass and alcoholic beverages—none of which should seroiusly interfere with the employment in our industries or agriculture. If in addition we should import more crude petroleum, copper, woodpulp, bauxite and other raw materials in order to conserve our own resources for possible emergencies, not only would the possibly reduced imports of rubber, silk and other raw materials be offset, but we would provide foreign countries with far more dollars than we did prior to 1939.

There is no mechanical way of forecasting the possible value of our post-war imports in view of the complexity of problems involved, except perhaps on the basis of our national income. As will be seen from the accompanying chart, there existed some relation between the two during the period between the two World Wars, though during the 'Thirties the value of imports failed to recover as fast as our national income. The explanation lies partly in the marginal nature of some imports; the imports of many luxury lines, disap- (*Please turn to page* 214)

The Record Breaking Inflation Of Our Money Supply

Will Price Levels Hold in 1944 Under Changing Influences?

BY H. M. TREMAINE

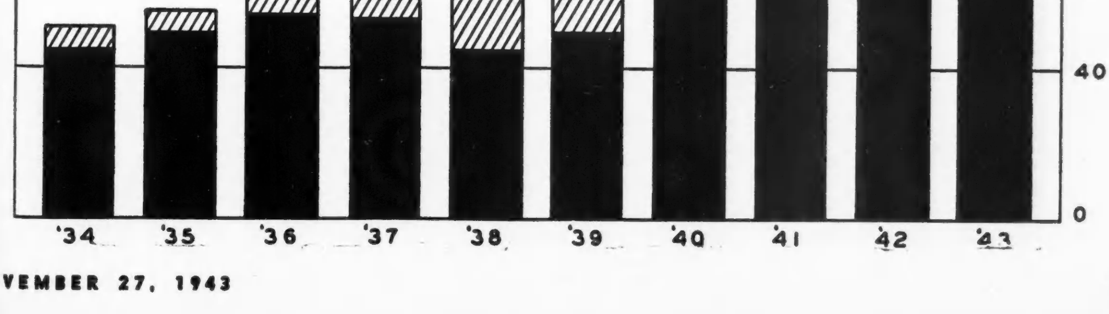
THE "inflationary gap," price bugaboo of those in charge of war financing and tax policy, after all is proving not nearly as explosive a factor as was expected. True, the "gap" is still widening, resulting in an inflation base such as never before existed. Our money supply has mounted constantly. Currency in circulation during the past year swelled some $5 billion to the unprecedented total of $19.5 billion and is still rising. This supplemented an even more drastic expansion of bank deposits rather than being at the expense of such deposits; they now exceed $107 billion, roughly twice the 1929 figure.

Both trends are, of course, inflationary in that both represent a rapid and huge accumulation of spendable money, a tremendous fund that in the absence of goods for purchase presses against the price level. However, special circumstances now seem to work in favor of rationalization of this expansion movement. One is that good war news apparently is inducing individuals to keep their savings largely intact to be financially prepared for the vagaries of post-war life. The other, most important in its implications, is that demand deposits, contrary to earlier belief, represent mainly business deposits and as such seem pretty well stabilized for the duration. These factors tend to endow our war-swollen financial structure with far greater stability than we earlier dared hope for.

Both business and individual bank deposits, in the wake of rapidly and strongly rising national income during the war years, now total some $96 billion in commercial banks while savings banks hold over $11 billion. Demand deposits, most volatile in character, at mid-year were $55.6 billion, against only $28 billion in 1939, $21 billion in 1929. The question of who owns these deposits is of major importance for future economic developments and formulation of banking and fiscal policies. In this respect, a recent survey conducted by the Federal Reserve Board is most enlightening.

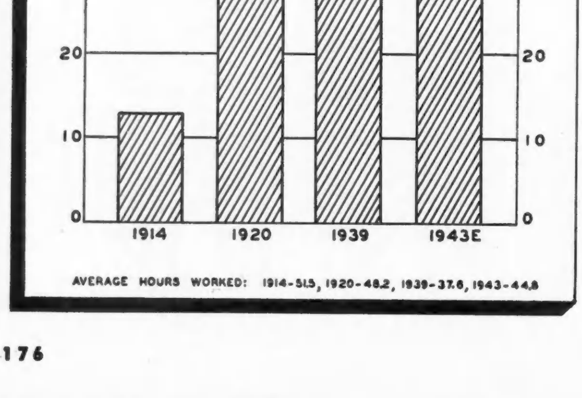
According to the latter, it appears that demand deposits belonging to business, incorporated and unincorporated, amounted to fully $39 billion at the end of last July; about $14 billion were owned by

LONG TERM EXPANSION IN THE TOTAL MONEY SUPPLY



individuals. In other words, business deposits account for nearly 70% of all demand deposits while individuals hold about 25%, the remainder belonging to non-profit organizations and foreigners. Since these estimates cover only demand deposits of individuals and businesses, they include only a portion of the total money supply outstanding. Available evidence indicates that individuals hold the bulk of the $19.5 billion currency in circulation and of the $31 billion time deposits in commercial and savings banks, and the postal savings system. Altogether, of the total of $126 billion of deposits and currency outstanding, over $40 billion belong to business, around $60 billion to individuals, trust funds and non-profit organizations, and the remainder to Government bodies. Thus individual holdings substantially exceed those of business; business holdings are predominant in demand deposits while individuals apparently hold nearly half of their cash in time deposits with the remainder almost equally divided between demand deposits and currency.

The Federal Reserve Board's estimate of ownership of demand deposits throws an interesting light on war's impact on corporate finance. Of the total of $38.7 billion held for business account, some $6 billion belong to financial business, that is insurance companies, investment, loan, real estate companies, and including trust funds of banks. The bulk or $32.8 billion is owned by non-financial business. Dominating in the latter category are $18.4 billion of deposits of manufacturing and mining concerns, representing fully one-third of all demand deposits, individual and business. Metal manufacturing and mining concerns alone held over $10 billion while other manufacturing concerns accounted for $8.3 billion. Wholesale and retail business ranks next in importance with deposits of $7.5 billion; public utilities, transportation and communications follow with $3.4 billion, and all other non-financial business including construction and services with $3.5 billion.

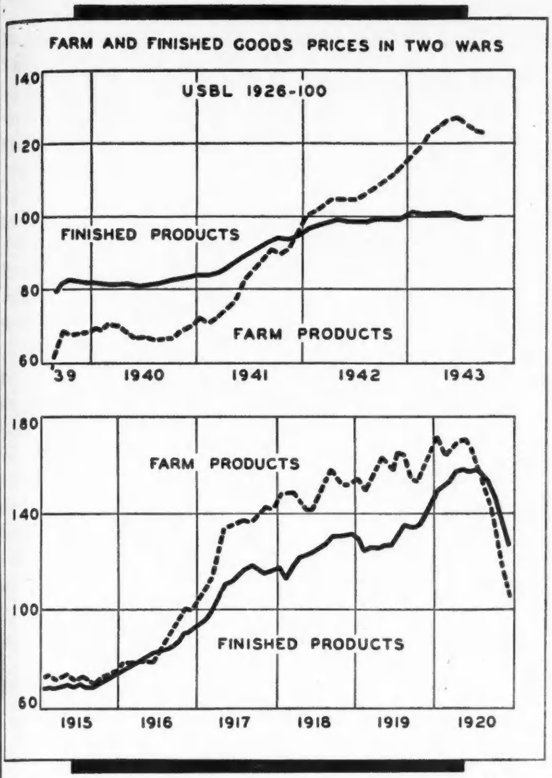


The Board draws the conclusion that business in a sense appears to have become the residual holder of much of the increased money supply generated by war-time deficit financing through the banks. Coupled with drastic restrictions on ordinary business uses of funds and large Government expenditures, the heavy consumer spending has transferred a considerable volume of deposits into business balances where they have tended to pile up. But with such a large volume of demand deposits held by all type of businesses, the future uses made of them will naturally depend more on business policies than on those of individuals. Even now, it is felt, business *in the aggregate* may be approaching a position where its reconversion and immediate post-war expansion needs can be financed with a minimum of reliance on bank loans and other external financing. Rapidly growing security portfolios held by business concerns strengthen this financial independence. In this connection it is significant that the largest deposit accumulations are occurring generally in metal manufacturing and trade where reconversion and inventory accumulation needs are apt to be greatest. However, it must be kept in mind that while business as a whole enjoys unusual liquidity, many individual firms, even entire industry groups may still find themselves short of funds.

Effects of Third War Loan

The third war loan drive together with September tax payments resulted in substantial drafts on accumulated cash holdings of business and individuals. Total deposits of reporting member banks declined some $6 billion between Sept. 8 and Oct. 6 and currency in circulation also showed sporadic declines during this span, resulting in a monthly overall increase smallest in over a year. Yet the decline registered fell far below the total of $18 billion of war bonds purchased by business and individuals which forcefully demonstrates the offsetting influence of high current excess income over expenditures though the use of bank credit for bond purchases was also a factor. Significantly, in addition to the growth in deposits and currency, individuals and business will have added during 1942 and 1943 at least $40 billion to their holdings of Government securities, largely payable on demand or within a short period. The share of business is estimated somewhat less than half of the total.

On this basis, total liquid assets of business, consisting of demand deposits, cash and Government securities may easily approach the enormous total of $55 billion, and fears have been widespread that this great accumulation may eventually produce a disorderly price rise, in other words inflation. However it would seem erroneous to measure this threat entirely in terms of such liquid assets. First of all, it must be borne in mind that a sizable increase in cash and demand deposits above prewar levels will be required to support the larger volume of production and the higher price level which is likely to prevail

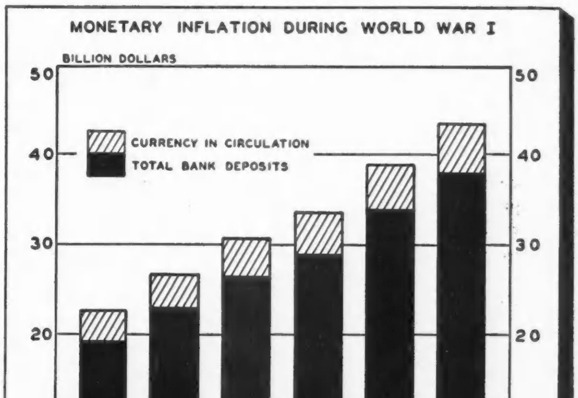


fter the war. The quantity of money needed will argely depend on the velocity of circulation. Tradiionally, cash and demand deposits required for any evel of economic activity must correspond fairly losely to the volume of individual incomes, and nly the excess liquid assets over the funds thus reuired at a given level of national income and veloity of circulation may be justly called "inflationary urplus". Under fair price and wage control, accordng to best available estimates which necessarily must remain just that, that surplus at present should mount to no more than perhaps $25 billion, or far ess than the aggregate of our inflated money suply. The resultant inflation threat thus appears coniderably less formidable than commonly feared; apid price increases may however stimulate hurried onversion of assets into goods, thereby materially nhancing the peril. This highlights the importance f "holding the line" not only during the war but for ome time thereafter as well.

It is clear that a substantial part of war-time aditions to corporate cash holdings and bank deposits as needed as working capital to sustain high warime activity, but far from all. Much accumulated s the result of Government restrictions on normal apital outlays, such as replacements, plant expanion and maintenance. Short term funds often were eavily augmented by direct or indirect Government financing of war orders. Inventories, while not et seriously depleted, have been substantially reuced and funds thus obtained are often held in cash. The latter factor is important especially with wholesale and retail trade concerns whose deposits exceed any previous levels. Accrued tax liabilities are unprecedentedly high and either cash or Government securities are held as a reserve against them. Last but not least, profits have been rising in almost all fields and a goodly part is being held in liquid form to augment post-war reserves or simply because of unavailability of normal expenditure outlets. The question arises how will the huge accumulations be eventually employed? How great is their inherent inflationary threat?

Business as a whole, after the war and if conditions permit even before, may be expected eventually to convert into goods all or most of their accumulated Government securities. They were never acquired as a permanent investment and therefore must be regarded as perhaps the most volatile of liquid corporate assets. The latter are probably best measured, as far as volatility is concerned, in terms of deferred replacements, deferred maintenance, inventory shrinkage, reconversion costs, new investments to take advantage of technological changes, and funds needed for post-war adjustments of various kinds. In short, the entire range of reconversion, transition and post-war expansion outlays would afford a suitable yardstick but actual estimates are of necessity highly conjectural.

Suffice it to mention, by way of comparison, that deferred replacements of industrial plant and equipment in 1939 were estimated by the Department of Commerce at $7 billion, that deferred maintenance in 1942 is assumed to run about 10% below normal expenditures, estimated at about $2.9 billion annually. Inventory shrinkage in 1943 is calculated by some as high as $3.6 billion but hereafter should be progressively less. Thus without venturing definite conclusions, it may be assumed that the sum of the aforementioned future (*Please turn to page 213*)



Happening in Washington

Charles Phe' Cushing Photo

By E. K. T.

Smart Money is on Germany to crack up on the home front before very long. There are too many parallels between present conditions and those which immediately preceded the civilian collapse of World War I, to be taken lightly, tossed off as meaningless coincidence. Allied accent is going on the political an diplomatic relations, lifting from the militar Parade of "big names" out of Washington soon wi be the convincing tip-off.

> ***Washington Sees:***
>
> **Capitulation by Fuel Administrator Ickes and the National War Labor Board to John L. Lewis has set in motion a series of events which could junk the Little Steel formula and puncture price ceilings all along the line.**
>
> **And Washington fears that nothing actually has been accomplished in the coal situation. The United Mine Workers Journal, official mouthpiece of the Union, has boldly asserted that the agreement does not represent "full attainment" but "paves the way for an ultimate victory." By way of strengthening that statement, the Journal reminds that "miners do not work without a contract."**
>
> **Ickes and Economic Stabilizer Fred M. Vinson are wrangling over the amount of increase in coal prices which is necessary to offset upped producing costs. The Fuel Administrator already was at grips with Vinson on increased fuel oil prices and if he has his way might launch the cycle of increases which Vinson is attempting to curb.**
>
> **The grant of Lewis' demands was made without reference to the boundaries of the Little Steel formula, affording other discontented unions a precedent to which they can point.**
>
> **And while the coal situation gets nowhere, the general price situation (which must support stabilization) is threatened by a concerted drive on Capitol Hill to pull the teeth of OPA. Spearheaded by the farm bloc, it has real possibilities of success.**

Food Stamps will be the Administration's answer i the anti-subsidy group on Capitol Hill is successfu in its plan to block the "direct action" food price rol back. The stamp plan was invented to move farn surpluses and aid the low-income group. Neithe surpluses nor incomes would figure particularly in th system now held in reserve. Price rollback via sub sidy would be the aim and the method.

Deferment from military service of labor union lead ers—one of the most criticized and least vigorousl defended principles of Selective Service—is in fo spotlighting. Congressmen say the reins of unio control have passed with suspicious speed into th hands of younger men, and members of the Hous Naval Affairs Committee believe they found th answer in the Brewster Investigation. Selectiv Service Headquarters isn't wholly sympathetic t this type of deferment.

Bricker's admission of interest in the Presidenc long expected and suspected occasioned no ripple Washington. It did nothing to disturb thinking this politics-saturated zone that the contest still beween Dewey and Willkie. Organization repu licans still want the former, but can't get 1940 an Philadelphia out of their minds. Willkie told Congressional group here he can repeat, and they' not sure they could stop him.

No Surprise was the action of the international foo conference at Atlantic City, setting Washington headquarters and officering the organization by me from our State Department. The United Stat delegation was prepared to argue that the count "picking up the check" should have the contr There was no argument on either score.

Organized labor lost more than the elections in which it was to play the prime role—New Jersey and Detroit are notable examples. Labor tested its strength, lost, and shed the illusion of ballot-box strength that has been its major legislative force.

Many who were not certain before are now convinced there is no such thing as "the labor vote." Only a matter of days after the voting, industry members of the War Labor Board proposed a program of union constrictions that wouldn't be seriously offered one year ago, one month ago.

Disgust with strikes in an era of "no strikes for the duration" was a factor in defeating labor-supported candidates. But there were causes, too, that can't be checked up against unions: there has been much moving about from industrial centre to industrial centre; many just haven't qualified to vote in their new places of residence.

The election results were expected to have another "side-issue" effect. Loss by the Democrats of the State of Kentucky was pointed to as a punishment for Democratic espousal of the anti-poll tax bill. Caution was sounded that, if this campaign persists, the "solid South" will be a misnomer next year.

At long last, lend-lease has become generally understood as a method by which one nation able to pay the costs of war is giving financial assistance to less well-fixed nations—giving, not lending or leasing.

The carefully worked out releases made public in London and Washington at the same time have shown lend-lease to be a bilateral, not a unilateral, operation. That the principal point of consignment from the United States has no intention of making a cash settlement is made clear by the White Paper assertion that no computation of the bill is possible.

To the less realistic thinking, as well as to certain public officials who perfer to think unrealistically, it reveals that "mutual aid" is the watchword henceforth. "Lend-lease" has gone into history. The cost of war, in terms of dollars, will be greater than some had figured.

Washington is genuinely pleased with the results of the tripartite conference at Moscow—much more pleased than London where an air of skepticism prevails. F.D.R. would have preferred to have council meetings planned for Washington rather than London, but he is yielding that point and with it a large measure of his personal world influence.

Secretary Hull gained a noteworthy victory not stressed in press or public discussions. Participation of the smaller nations means less difficulty with territorial aims, but more importantly it means votes for principles of American democracy rather than Old World diplomacy. The tendency of the smaller, more troubled nations, is to follow the New World.

Appointment of Bernard M. Baruch as chief of the Federal postwar unit means sympathetic treatment for Government workers. At the end of World War I, holding a like post, Baruch personally paid the carfare home for low-paid employees in his office.

Most persons consider Federal employment will drop sharply at the end of the present war. That wasn't the case a quarter of a century ago. September 1, 1919, 10 months after the Armistice, the Federal population had declined only 2,500.

Winston Churchill's "anything can happen at this stage" has set off a cycle of thinking that something will happen, and soon. The result is being reflected in loss and threatened loss of high-placed personnel in the war effort.

The conflict has continued sufficiently long to make it imperative for those who answered the call early to return to their offices. Some of the later arrivals came here under specific understandings that they would be needed only for a well defined undertaking not for unlimited service.

Growing feeling that WPB has reached the stage where organization is complete and operation will be automatic is worrying Donald M. Nelson. That reason is being offered to him with each request for release. Nelson takes the position WPB is really winding up for the knockout blow, can't afford to be weakened at this point.

Real truth of the matter is that contract termination, renegotiation, are crowding other subjects out of war production conversations. Many department heads have been almost wholly divorced from private business for months. They feel entitled to an opportunity to go back to their desks, prepare for what's ahead.

Of the 137 Government and private agencies devoted to the study of postwar problems, the Committee for Economic Development now seems most likely to emerge as top bureau. Not an official agency, it nevertheless enjoys housing in the U.S. Department of Commerce.

Fundamental concepts of CED include private enterprise, prevention at any cost of longtime unemployment, planned production far exceeding any peacetime years, large-scale development of foreign trade. A large order, the job has been described by one CED chief as "agonizing and inspiring."

War Labor Board's investigation of living costs on which a report will be filed within 60 days lacks a true ring. Obvious purpose is to stave off demands for wage increases outside the Little Steel formula.

WLB will find demand for increases closer than ever before when three Federal employees unions submit their program for boosts. The unions will demand that white collar workers be given the benefit of the wage-hour law's overtime pay feature.

Highway trucking is moving into a critical period at a time when tonnage is multiplying. No way has been found to check manpower losses; little or no equipment will be made next year; tire and gasoline supplies will be less; rate raises probably will be denied in the face of increased operating costs.

J. B. Eastman, ODT Chief, has warned that he views the trucking picture as more critical for the next six months than that of the railroads, for which he previously made a discouraging forecast.

Administration will be unable to carry on price roll-back subsidy system after end of the year, by all current indications. But its coming retreat on inflation control will not be a rout. More likely, though forced rather than planned, it will be a retreat to previously prepared positions.

Unable to hold the present line, it will set up another and strive to hold that. Guesses are that wage increases of somewhere between 7 and 10 per cent will be allowed. That will make it still harder to prevent further rise in food prices.

But the Administration will play for time, hoping to keep the additional price-wage inflation "moderate" for the rest of the war. And hoping also that the war in Europe may be ended by summer, if not spring.

When Germany capitulates, it is expected that commodity prices will soften; and that, with a decline in war spending and employment on the nearby cards, both the labor unions and the farm bloc will be more amenable to reason.

German strategy is becoming fairly plain. It is to make invasion by United States and British armies so prohibitively costly—if possible—as to leave some possibility of a negotiated peace. We will not negotiate—but should our all-out invasion over the English Channel meet with disaster, that would drastically alter the prospective duration of the war. Because it would be so calamitous to Allied power and prestige, the high command will reduce the risk to the minimum possible by the most thorough preparation, feeling that the war situation does not require or justify a bold gamble. Thus, it would not be suprising if the major American-British offensive effort is not unleashed before next spring.

10 Special Selections For The Next Major Advance

BY THE MAGAZINE OF WALL STREET STAFF

Editor's Note: The biggest market advances since the spring of 1942 have mostly developed in "peace stocks" which were subject to public distrust or uncertainty when the major upward trend started. We think it probable that the next broad upward swing will bring large appreciation in selected securities not overly popular at present and hence relatively depressed. Issues in the two groups presented herewith were chosen for that objective. Since the intermediate market outlook is dubious, we do not advise immediate purchases. For continuing timing counsel, follow the A. T. Miller market analyses in the forepart of each issue.

Five Moderate-Priced Stocks For Income and Profit

AMERICAN STEEL FOUNDRIES

AROUND 24 this stock—sole capitalization of a long established and financially strong manufacturer of railroad and related equipment—is currently priced about 8 points above its bear market low, 40 and 49 points under its highs of 1936 and 1937, respectively, and approximately 17 points under its highs of 1938-1939. In short, it is considerably more depressed than the general market level.

Heavily loaded with war work, current volume is abnormally large; but profits are not relatively distorted. On the contrary—stabilized around $2.30 to $2.50 per share by war-time taxes and contract renegotiation—they are materially smaller per share than was earned on much smaller gross in 1936-1937 or in the active years of the 1920's. It is our belief that volume and profit potentials for well established rail equipments for several years after the war are much greater than is discounted by present market prices; that peak earnings for this stock in peacetime are likely to be larger, rather than smaller, than now; and that any hypothetical level of peacetime earnings will in due time command a higher market capitalization than present war earnings. Note that in the optimistic bull market of 1937 it sold as high as 73 on earnings of $3.05 per share and a dividend identical with the present $2 anuual rate, which offers a yield of about 8.3 per cent.

Financial position is strong. The policy indicated by the record is to distribute an exceptionally generous proportion of earnings but to omit the dividend without hesitation when times are too bad. Very few companies subject to such sharp cyclical swings distribute 75 per cent or more of earnings, as American Steel Foundries is doing and as it has done in many prior years.

	Price Range				
	1937 High	1938 Low	1939 High	1942 Low	Current Price
American Steel Foundries	73¼	15⅝	41	16⅜	23¼
Motor Products	38½	10½	19	6¼	14
American Type Founders	20⅛	3⅞	8⅜	3¾	7¾
Republic Steel	47½	11¼	28½	13⅜	16
White Motor	33⅜	6⅛	15¾	12	18⅜

	Price Range				
	1937 High	1938 Low	1939 High	1942 Low	Current Price
Atlas Corp. Warrants	4	⅝	1¼	¼	1⅜
Equity Corp.	2⅝	½	1	5/32	15/16
Selected Industries	4⅛	¾	1⅝	1/16	¾
Tri-Continental Corp.	11⅜	2⅝	4⅜	¾	2⅞
United Corp.	8½	2	3¾	7/32	1⅛

MOTOR PRODUCTS

The regular lines of this war-active company are automobile parts and "deep freeze" equipment, both of which will be favored by a large post-war demand. With a capable aggressive management, it may well be that experience in war work will result in further product diversification. Due to moderate size of the enterprise and small capitalization—consisting solely of 391,254 capital shares — there is a "leverage" factor in this situation which produces earnings and market swings considerably wider than for many

others in the automotive field. Thus, per share results have ranged from sizable deficits in depression years to a peak of $5.49 in the active peace year 1937.

For the quarter ended Sept. 30, net was 65 cents a share against 57 cents a year ago; or at projected rate of $2.60, as compared with $1.96 for the fiscal year ended last June 30. Average earnings for the three peace years 1935-1937 were $3.92 per share. There were moderate deficits in 1938-1939. Latest balance sheet indicated a book value of $19.45 per share; and net working capital of $4,431,000 equalled more than $11 per share. Now priced around 14, the stock's 1943 high was 17, low 9⅛. In 1936 on net of $3.51 and dividend of $3.25 it sold as high as 43½; and in 1937, with net $5.49 and dividend totalling $5, its high was 38½. Due to currently swollen working capital needs, it is doubtful that present $1 annual dividend—yielding some 7.1 per cent—will be raised under war conditions. We believe this stock, if bought in reaction, has a very promising longer-term profit potential.

AMERICAN TYPE FOUNDERS

Founded in 1892 and reorganized in 1935, this company makes printing presses and types, as well as a variety of printers' supplies with the exception of paper. It is now heavily engaged in war work, with dollar gross some five times greater than the pre-war average. War-time profits are also substantially greater than "normal", as judged by the back record. In the fiscal year to last March 31, net was $3.01 per share. For six months to Sept. 30 it was 79 cents a share, against 64 cents in corresponding year-ago period. On present share capitalization, largest net in recent pre-war years was $1.04 in 1937. Top earnings in the prosperous 1920's were equivalent to slightly more than $2.50 a share of current capitalization.

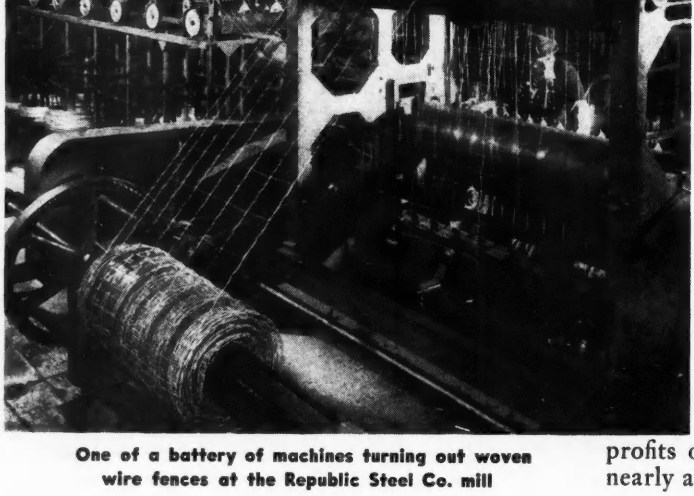
The speculative potential in this stock rests on the accumulated post-war demand for printing equipment plus product diversification on which the management is known to be aggressively working but on which it is not yet ready to announce details. At present price of 7¾ the stock is much nearer year's low of 6¾ than year's high of 12⅜. As a measure of what it can do in a period of hopeful peacetime speculation, its highs in 1936 and 1937 were, respectively, 18 and 20⅛. With added diversification planned, outside of the printing trades, we think there is a good possibility that post-war volume and net may materially exceed best previous peacetime results.

Capitalization is confined to 568,101 shares of $10 par value common. Book value indicated by most recent balance sheet is over $18 per share; and net working capital about $13 per share. Dividends are being paid this year for the first time since the 1935 reorganization, at indicated rate of 50 cents a year. With working capital needs emphasized, due to swollen war volume, no near-term increase in distribution can be relied on, but current indicated yield is about 6.2 per cent. We regard the longer-term speculative potential in this stock as much above average.

REPUBLIC STEEL

Stocks of the larger steel companies are among the most depressed in the market, when compared with price ranges in peace-time bull markets. This is because they are classed as "war stocks"; and also because of lack of confidence that expanded capacity can be adequately utilized after the war. Quite apart from such considerations, these stocks—including Republic—are speculations, not investments, because they are "in and out" earners and dividend payers. Purely on a speculative basis, however, it is our conviction that Republic will sell very substantially higher after the war than present price of 16.

In 1939 it attained a price 78 per cent higher than now, though it paid no dividend against $1 anuual rate at present, with earnings of $1.46 per share being less than probably will be shown for 1943. At the 1937 market high, this stock made a peak of 47½ on net of $1.19 per share and no dividend. Peak earnings were $3.87 in 1941, in which year $2 was paid. In our opinion, the threat of over-capacity and of competition from other industrial materials is excessively discounted by the present pessimism on leading steels—among which Republic ranks third in size—and we therefore favor the stock as a promising longer-term speculative buy in reactions.



One of a battery of machines turning out woven wire fences at the Republic Steel Co. mill

WHITE MOTOR COMPANY

This company is a leading maker of trucks and buses. Its pre-war earnings record was not good. However, careful analysis suggests that present excellent profits on large war-time volume probably are not nearly as much a "flash in the pan" as would appear

to be indicated by superficial comparison with past results. It need hardly be said that the level of post-war profits is conjectural, but there is a factual basis for belief that they probably will substantially exceed pre-war results. In the first place, accumulated civilian demand for trucks and buses, plus "normal" average demand, appears virtually to assure three to five years of post-war volume much above the pre-war average. In this connection it is worth emphasizing that the great bulk of Army trucks that will be left over as surplus are of types not usable in civilian work, excepting the lighter models, whereas the most profitable White units are the heavy duty models. In the second place, and this is very important, only in recent years has the present management developed growing and profitable parts and service sales, the benefits of which figure to be cumulative.

U. S. Army scout car built by the White Motor Co., going through its paces in a test ground

Financial position is notably strong, with net working capital shown to be \$32.77 a share by the most recently issued balance sheet; and book value \$45.74 a share. Capitalization consists solely of 625,000 shares of \$1 par value common. Dividends are being paid at current rate of \$1.25 a year, offering yield of approximately 6.94 per cent on present price of 18, which compares with year's high of 22¾ and low of 13¼. The stock's highs in the peace-time bull market years 1936 and 1937 were, respectively, 28⅜ and 33⅜—with the then existing realities of volume and profits considerably less impressive than we believe the post-war potential to be. We therefore regard the issue as an attractive buy for longer-range appreciation, though further market unsettlement in the psychological adjustment to the coming end of the war in Europe may provide moderately more advantageous buying levels.

Five Low-Priced "Options" For Large Percentage Gain

Note: These radically speculative investment trust issues move—both ways—much more sharply than the market. In the event of a great peace-time bull market, they will rise hugely in price. They should be considered not as values but as options on the next major rise; and they are suggested only for a modest portion of speculative funds. Since fractional differences are important in most cases, the objective should be to buy reactionary market conditions.

ATLAS CORPORATION WARRANTS

This well managed trust emphasizes special situations, in some of which it exercises the controlling and directing interest; but it also operates in the stock market. The common stock offers only a medium "leverage," widest price extremes in the last ten years having been high of 18½ in 1937 and low of 6¼ in 1942, present price being around 10. However, Atlas warrants, traded on the Curb Exchange, show a ten-year range between ¼ and 6¾; and this year alone have ranged between ⅜ and 2⅝, with present quotation 1¼. Offering perpetual right to buy the common at 25, they obviously have no present value except the purely speculative value of an option without time limit. At the top of the 1937 bull market they had no asset value, yet sold as high as 4⅞. Even if remote from real value, such permanent options always move with the market trend, only much more extremely.

EQUITY CORPORATION

The Equity Corporation has expanded through acquisition of various other investment companies. Nearly half of holdings are in subsidiary investment companies, about a quarter in General Reinsurance Corporation and balance in marketable securities. The common stock, traded on the Curb Exchange, is a high leverage issue of only small present asset value. Extreme range is represented by high of 3¼ in 1937 and low of ⅛ in 1941. Range this year has been between 7/16 and 1¾ or maximum rise of 300 per cent; and present price is 15/16. Obviously the best time to buy this kind of option is in a deeply depressed market; and the next best time is in a stiff reaction. A difference (*Please turn to page* 211)

Bottling liquor in a distillery

The Story Behind The Liquor Boom

What's Ahead for this War-Peace Industry?

BY HARRY N. BULOW

THE recent acquisitions of small distilling companies by the larger companies in the business, the reports of further negotiations for such deals and the "boomlet" in whiskey stock prices which resulted therefrom, have reminded many financial observers of the situation in the late 1920's when there was a scramble among the larger public utility holding companies for the properties of small electric operating companies located throughout the country. At that time the basis for the acquisitions was the conviction in utility executive circles that the days of new utility companies were over and that since the size of United States was limited, it was considered urgent that the big companies acquire existing properties to maintain their positions.

A similar line of reasoning has been advanced for the recent purchases by the major distilling companies. This time evidence is pointed out in the form of dwindling supplies of liquor, the manufacture of which was halted over a year ago by Government edict, and the subsequent need of distillers to stretch out supplies (regarded as adequate for less than two years current demand) for at least the duration of the war and several years thereafter.

In this connection it must be noted that the inventory needs of whiskey companies vary with the nature of their business. Spirit blend companies say they always require sizable stocks of aged merchandise to be used in blending with neutral grain spirits and that they cannot sell themselves out because they would be unable to resume large-scale operations in the post war period without adequate aged inventories. By the same token, companies specializing in bottled-in-bond merchandise must nurse along their inventories so that they will be able after the war to sell moderate quantities of their established brands, until new distillation is properly aged in accordance with Federal regulations.

However, the present situation has some very significant differences from that of 15 years ago. True, in both instances, the buyers were willing to pay top prices for the acquired properties. But the initiative in the sale of the smaller distilling companies today has unexpectedly come from the seller rather than from the buyer. That this is not strange, however, becomes apparent from careful examination of the underlying situation.

The entire situation appears to have come to a head immediately after the W.P.B. had indicated its belief that resumption of beverage distillation was not likely even in 1944, as a result of sharply increased need for alcohol by synthetic rubber producers, who had previously under-estimated their requirements. In fact, the major flurry in security

prices has taken place only since Dr. Whitman, assistant head of the W.P.B. Alcohol Section had informed a Congressional agricultural subcommittee on October 13 of the current serious alcohol picture.

It must be emphasized at this juncture that the recent distiller company purchases are not directed at eliminating industry competition. Under today's very unusual whiskey market conditions, there is no vital competition, in the traditional sense of the term, between distillers, because the market will absorb all whiskey offerings, so much so that the distillers could, if they wished, sell themselves out of business in short order. Those distilling companies which have been acquiring properties have thus not been guided by immediate competitive motives. They have been motivated primarily by the fundamental instincts of self-preservation, the desire to maintain their industry position and the wish to make a profitable yet legal expansion deal.

Among the overlooked yet highly significant factors in this picture have been the reasons for the willingness of the independent distilleries to sell out in the face of today's current profitable business opportunities. Underlying the desire to sell, for the most part, are the peculiar effects of American corporate tax laws which penalize those small non-war producing corporations making profits in excess of pre-war years.

Tax Factor Paramount

Prices for whiskey today, even under Office of Price Administration ceilings, permit profits for distillers beyond anything enjoyed in the years of highly competitive market conditions which existed before the war. Small distillers are faced with three alternatives: that of continuing operations by liquidating inventories over a period of time and subjecting most of the profit earned to a 90 percent excess profit tax; or that of discontinuing operations, selling out stocks now and subjecting the profit only to the capital gains tax of 25 percent; or following some legal tax avoidance plan in line with that adopted by the American Distilling Co.

The fact that sales of whiskey companies by sales of stock are subject only to capital gains provisions of the income tax laws is probably the strongest motivating factor in the desire of small companies to sell or dispose of bulk merchandise. Other important factors in this desire to sell are (1) the unwillingness of some managements to assume the uncertain risks resulting from war, (2) the important tax problems confronting owners and estates of controlling blocks of stocks, which compel liquidations, and (3) the wish to take advantage of the current whiskey shortage and the resulting high prices which distilled spirits command in the market.

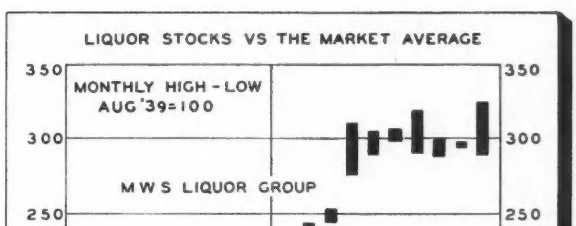
The startling sale of 95 per cent of the Frankfort Distilleries stock for $43,500,000 to Joseph H. Seagram & Son and Calvert Distillers Corp., both subsidiaries of Distillers Corp.-Seagrams, Ltd., was due to the desire on the part of the heirs of the Lawrence Jones, majority Frankfort stockholder, to convert holdings into cash for estate tax purposes.

The sale of the Ben-Buck Distilling Company late last year to American Distilling Company was a manifestation of the wish to take advantage of the current whiskey shortage and the high market prices which distilled spirits have been commanding in the open market.

The reported purchase of Century Distilling—Allied Mills subsidiary—by National Distillers Products Corporation is primarily a reflection of several of these reasons, but more particularly the seeming unwillingness of the management to compete in the uncertain post-war period with the big distillers plus the fact that the price being paid for the property exceeds market valuation of the parent company common stock.

The major distillers, of course, are anxious to buy these independent distillers with their important inventories of aged whiskeys and neutral spirits and excellent brand names. There are today only some 405,000,000 gallons of distilled spirits in distiller warehouses, which, after allowing for leakage and evaporation and correcting for proof, amount to about 370,000,000 gallons. These inventories are sufficient to meet less than two years unrestricted demand. Under these conditions, distillers have been compelled to institute conservation programs designed to "stretch" out inventories for at least the duration of the war and several years thereafter in order to prevent a repetition of post repeal market conditions when much green whiskey was sold.

Because of the considerably different inventory positions of the major distillers, however, the conservation policies being followed and the rationing programs which have been adopted have little uniformity. As a result, some of the distillers are finding that the market position of some of their brands, established after a number of years at considerable



expense, are being threatened. The desire to acquire additional inventories is therefore a reflection, in good part, of this development. However, it must not be overlooked that part of this inventory accumulation represents long range planning in which the jockeying for market superiority after the war is an almost equally important consideration.

This planning pays considerable attention to the undesirability of the industry again flooding the market with raw, unaged merchandise after the war such as characterized the post-repeal picture. Brand names and good-will established only at considerable expense and effort may well be disastrously affected by the recurrence of market conditions similar to those prevailing in 1933 to 1936. To this end, the industry estimates that some 100,000,000 gallons of aged whiskey must not be touched until after the war except for highly important reasons.

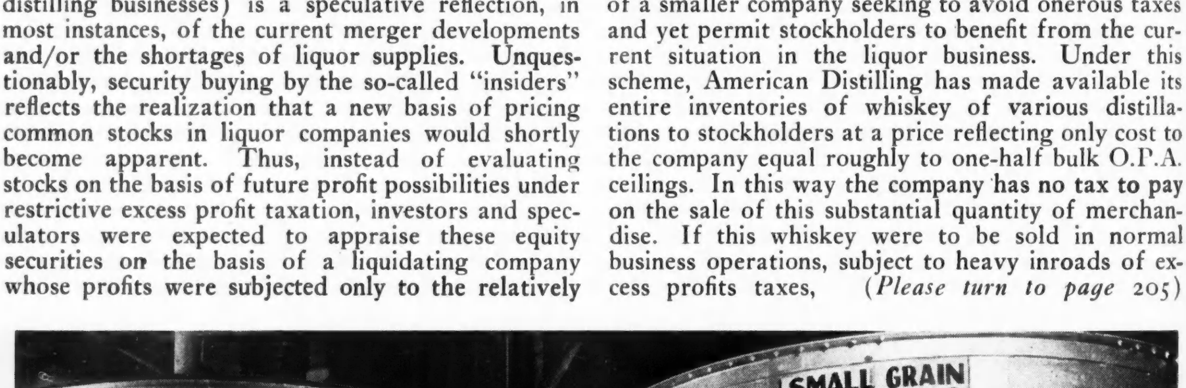
Other significant considerations of the purchasing distillers are (1) the opportunities to obtain important brand names whose public acceptance has assured them of important value considerations, (2) the desire to own certain distinctive plant facilities, particularly since these cannot now be constructed, and (3) the wish to assume certain whiskey holdings which are currently lacking or scarce to distillers, primarily for blending purposes.

The recent scramble to buy stocks in most liquor companies (particularly in the stocks of the smaller distilling businesses) is a speculative reflection, in most instances, of the current merger developments and/or the shortages of liquor supplies. Unquestionably, security buying by the so-called "insiders" reflects the realization that a new basis of pricing common stocks in liquor companies would shortly become apparent. Thus, instead of evaluating stocks on the basis of future profit possibilities under restrictive excess profit taxation, investors and speculators were expected to appraise these equity securities on the basis of a liquidating company whose profits were subjected only to the relatively modest capital gains tax requirements.

The stock purchases by others is also a reflection in this situation, but furthermore represents a basic market readjustment, which, while very sudden, was long overdue. Distilling company securities have long been oversold due to fears of a recurrence of national prohibition sentiment and the too pessimistic market interpretation of the effects of conversion of the beverage distilling industry 100 percent to war work. Common stocks of these companies have been selling since the war on one of lowest price-earnings ratios in the market. This current "boomlet" in small part has been a corrective of this situation.

The "boomlet" in the prices of common stocks of the smaller distilling companies also is a reflection, to a very considerable extent, of the apparent trend of those small companies interested in continuing in business and yet, in paying good dividends to stockholders, to declare dividends in kind. Since whiskey is scarce today, dividends in kind, particularly where they are substantial, such as has been the case in the Tom Moore Distilling Co. declaration, are held of great value—even greater than the dollar value of the dividend under O.P.A. ceiling.

The sensational move in the price of American Distilling common stock over a period one month and a half, during which time the stock quadrupled in price, of course, follows the same basic pattern of a smaller company seeking to avoid onerous taxes and yet permit stockholders to benefit from the current situation in the liquor business. Under this scheme, American Distilling has made available its entire inventories of whiskey of various distillations to stockholders at a price reflecting only cost to the company equal roughly to one-half bulk O.P.A. ceilings. In this way the company has no tax to pay on the sale of this substantial quantity of merchandise. If this whiskey were to be sold in normal business operations, subject to heavy inroads of excess profits taxes, (*Please turn to page* 205)



Barley malt being treated before cooking at Schenley Distillers

The Rubber Industry After The War

Which Stock Is The Best Buy Now?

BY STANLEY DEVLIN

Rubber Manufacturers Ass

Aligning a wheel

DURING the past two years, the rubber goods manufacturing business has been on a more active schedule than ever before, in order to turn out the huge supplies needed by the armed forces and to supply the essential civilian demand for tires, tubes and apparel. There is every indication that this demand will continue as long as the war lasts; and when it ends a huge accumulated civilian demand for tires, tubes, raincoats, footwear, mechanical goods and toys will keep the industry busy for a long time. A very active program for the motor car industry, to start as soon as conversion of plants can be completed after peace comes, will mean a vast demand for tires, tubes and other rubber goods going into motor cars, for several years.

The development of synthetic rubber during the period since Pearl Harbor has been a miracle of American enterprise and ingenuity. With no more than 15% of the former natural rubber supply available, a dozen different kinds of artificial rubber have been produced. It is an open question, however, whether synthetic or natural rubber will be the most widely used after the war, when the supply from the Far East is again obtainable. At present, the cost of synthetic rubber is higher than former average prices for the natural material; also in heavy duty tires and tubes for truck and bus use, the synthetic rubber is reported to be far less satisfactory than the natural, and it is also less serviceable for passenger car tires if the cars are driven at high speed.

The question of how much synthetic and how much natural rubber will be used in the industry after the war is of little consequence to the investor in stocks in this industry, as it is certain that the raw material will be available, and the manufacturer will choose the more serviceable or the cheaper of these two products. It is of importance to the industry, however, that the squeeze on this country which took place in the early 1920s can not be repeated. Then, a combination of English and Dutch rubber producers in the Far East caused such a restriction in the exportable supply of natural rubber that prices went to somewhere around $1.30 a pound and when the "corner" was broken, rubber prices dropped to around 4 cents a pound. The industry in this country had been forced to accumulate a large supply of raw materials because of the squeeze and suffered terrific losses later, on inventory write-down. With many synthetic plants here, and the "know-how" of making the artificial supply, such a squeeze could never develop again.

The problem of conversion to peace time production when the war ends is a simple one in the rubber trade. Some changes in the size of tires and tubes and the specifications for apparel and mechanical goods will be necessary, but as a whole, the plants should not be long delayed in swinging into peace time output. As a matter of fact, many of them are making some civilian goods now.

A long period of prosperity for the industry should be reflected in a strong investment and market position for many of these stocks. A comparison of the position of the leading issues shows which ones have the best market outlook, for the long pull.

The four largest companies are the United States Rubber Company, the B. F. Goodrich Company, the Goodyear Tire & Rubber Company and the Firestone Tire & Rubber Company. A statistical comparison of these four is shown in table I.

On this showing alone, the U. S. Rubber position would seem to be the strongest, and there are some

other factors which might give it first choice. It is true that after the completion of the write-off of the Far Eastern rubber properties, amounting to $15,487,414, the remainder left for the common stock was less per share than that on any of the other three, but it would seem that this write-off was more properly a charge against capital account and a deduction from surplus than one from earnings. The tax collectors allowed it to be taken from income in 1942, however, and therefore it was so charged off and thereby saved the company taxes. The earning power of the company was demonstrated in 1943, with net for the first half year at $2.45 a share on the common.

TABLE 1

	Net Sales 1942	Net Income Before Reserves	Percentage of Net to Sales	Contingent or War Loss Reserves
Goodyear	$466,713,738	$22,370,911	4.8%	$8,000,000
Firestone	352,693,500	15,481,130	4.3%	3,000,000
U. S. Rubber	290,992,037	24,868,425	8.5%	15,487,414
Goodrich	238,784,372	11,524,706	4.9%	2,000,000

TABLE II

	Net Sales 1942	Net Profits Before Special Reserves	Percentage Profits to Sales	Special Reserves
Lee Rubber	$18,725,101	$1,294,765	6.6%	$150,000
Dayton Rubber	14,063,151	821,054	5.7%	300,000
General Tire	32,944,785	1,182,963	3.6%	300,000

The company has been improving its financial position in the past two years, reducing its funded debt $1,838,000 recently, and building up its net current asset position to $107,905,839 as of June 30, 1943. As of that date, the outstanding securities were $32,725,000 first mortgage and collateral trust 3⅝% bonds due in 1958, 651,091 shares of $100 par value 8% non-cumulative preferred and 1,759,092 shares of $10 par value common stock. During the late 1920 and early 1930s, U.S. Rubber was in process of internal reorganization, with the duPont interests taking an important part in its management. Results were not shown in earnings until 1935, but from that year onward, income was in excess of $8 a share a year on the preferred, but dividends were not resumed on it (after many years' lapse) until the payment of $4 a share in 1938, with $12 in 1939, and $8 in each later year excepting 1942 when $4 was paid. The earnings on the common stock averaged $2.26 a share for the 1935-1940 years, with $4.26 in 1941, $1.82 in 1942 (after 81 cents a share war-loss write-off in 1941 and $8.91 a share in 1942).

With its peace-time average and the war year income before the write-offs, it would appear that U.S. Rubber common can be considered as having the backing of an earning power of $3.50 a share annually. Dividends have been scant in the past fifteen years, with only $2 a share paid in 1941 and 50 cents thus far in 1943 on the common in that period. From that angle, it might be that this stock would not be the first choice in the rubber group, excepting that it has been indicated by the directors that a more liberal policy may be expected if peace-time income is up to expectations. The outlook for postwar earnings seems very promising. The company is among the largest makers of tires and tubes for pleasure cars, has an enormous production of rubber footwear, sporting goods and toys, mechanical goods, etc.

One of its principal customers for tires and tubes is General Motors and it does other original business for motor vehicles, also a large replacement business, for a total peace-time capacity of about 25,000,000 tires a year. In peace times, it should eventually get back the crude rubber supply from its own plantations in the Far East, which provided about 15 percent of its total needs before the war. It has nine synthetic rubber plants in operation, which are Government owned, but may be leased or bought after the war. Among developments in the war period is the production of huge numbers of 100% waterproof raincoats for the armed forces which have no rubber in them but are made from plastics. It seems likely that in some postwar bull market, "Rubber" may again attract the attention of board rooms with the kind of volatile advances which have made it a

TABLE III

STATISTICAL POSITION OF LEADING RUBBER COMPANIES

	Earned per Share on Common Stock 1943	1942	1941	Average Earned 1935-1940	Book Value Per Share	Net Current Assets Per Share	Dividends per Share 1943	1942	1941	Recent Price	Price Range 1936-1943 incl. High	Low
Goodrich	$3.49(a	$5.72	$5.02	$1.51	$51.34	$21.28	$1.00	$1.00	$2.00	36½	50½	10
Goodyear	3.57(a	5.40	4.68	2.39	37.29	63.59	2.00	1.25	1.37½	34½	47⅜	10
U. S. Rubber	2.45(a	1.82	4.26	2.26	30.63	61.31	0.50	——	2.00	37	72⅜	13½
Firestone	2.60(a	5.04	4.37	2.41	46.21	47.74	1.50	1.50	1.50	35	43	12¼
Lee Rubber	2.50(b	5.39	6.19	3.16	48.01	32.71	2.25	2.25	2.25	36	39⅛	9¾
Dayton Rubber	——	4.15	4.49	2.18	20.32	21.51	1.00	1.00	1.25	15	28⅞	5
General Tire	2.17(c	2.37	2.04	1.78	24.54	19.09	1.00	1.00	1.00	17	38½	6½

(a six months to June 30 (b six months to April 30 (c six months to May 31

market leader in the 1937 and the 1943 markets.

Some analysts consider B. F. Goodrich Company common stock as having the best investment position. The average earning power has been high for many years, with a few exceptions. In the past three years, the net before special reserves averaged nearly $9 a share a year, and after these reserves, averaged $7.07 a share. In 1942, the actual net income was $9.31 a share on the common stock, from which contingent reserves of $3.59 a share were deducted. In the first six months of 1943, the net income was $3.49 a share and the second half year may exceed that, before reserves. Thus, on earnings, the stock may be relatively the cheapest of the four, and there is also the excellent record of the company in the 1920s when U.S. Rubber affairs were awry.

Despite all of this, however, the price movement record of U.S. Rubber has been better from the point of view of the size of its advances in periods of sharp gains in the stock market. The best figure for Goodrich in 1937 was 50½, or far under the 72⅜ that U. S. Rubber reached that year, while the subsequent low on Goodrich went under that of U. S. Rubber. Whether it be the best stock or second or third, Goodrich common is in a good position for the expected postwar boom in this group. The dividend policy has been very conservative and large sums have been put back into the properties. Payments in 1941 were $2.00 a share, but only $1.00 each in 1942 and 1943, although a year-end payment this year is not impossible.

Greatly Diversified Production

Goodrich has a general business in many products besides its large output of tires and tubes. Soon after the war started, Goodrich developed a very large production of butadiene type of synthetic rubber, in which it had pioneered long before Pearl Harbor. Some tires made largely of this type of rubber had been in operation since 1940, and during 1943, some small tires were made with 99.84% synthetic rubber. The company reports that some of these synthetic tires gave service comparable to those made of natural rubber. Goodrich has maintained a strong financial position. As of June 30, 1943, the current assets were $125,522,097 and current liabilities $44,655,566, with the working capital $80,866,531. The outstanding securities on that date, including bank loans of $4,571,429, were $22,669,000 first mortgage 4¼% bonds due in 1956 and $4,900,000 3% bonds of the same mortgage; 412,031 shares of $5 cumulative preferred of no par value and 1,303,255 shares of no par value common. The preferred is callable at 100. In the balance sheet, the company reports that intangibles of $57,798,001 are carried on the books for goodwill, patents and trade-marks, but these are not set up as assets.

Goodyear Tire & Rubber is one of the leaders in the industry and had the largest total business in 1942. It is said to have produced in peace times one quarter of the total tires and tubes used in the United States, and it is an important maker of many lines of rubber goods. In the war effort, it has been a large producer of blimps and dirigibles, and is planning to continue to feature them for various uses after the war. As have the others, Goodyear has actively developed production of synthetic rubber. Before the war, it had a fair production of natural rubber from its own plantations in Java, and some from lands in the Phillippines. These and its factory in Java were lost to the Japanese, and their values deducted from the 1942 income account.

Goodyear has also been active in manufacturing rubber goods in a number of its foreign plants during the war, including those in England, Australia, Canada, South Africa, India and Peru, while those in Brazil operated from natural rubber produced in that country. Those in the Argentine and Sweden were inactive because of a lack of raw materials. When the war is over, this company is planning to expand its activity in many other countries. In the 1920s, the earnings of Goodyear were sometimes larger per share than any other of the larger companies, but income dropped sharply in the early 1930s, with deficits in several years and small net in others until 1936, but from then forward, income was at a rate better than $2.50 a share annual average until 1941. In the 1941 report, actual net was $8.08 a share before special reserves and $4.68 after them. In 1942, net before the reserves was $9.34 and $5.46 a share on the common after the write-off for war losses. The dividend rate has been conservative, with $1.00 to $1.25 in several recent years but $2.00 has been paid this year.

Goodyear has $37,500,000 in bonds, $9,030,969 in minority stock interest of subsidiaries, 626,154 shares of $100 par 5% cumulative preferred and 2,059,168 shares of no (*Continued on page* 208)

United States Rubber Co.

A giant 400-foot conveyor belt of synthetic rubber

Well known stocks often cost a premium price for reputation while less well known issues may offer greater values and potentialities.

Secondary Stocks Versus Leaders

BY J. S. WILLIAMS

IN periods of business expansion, a number of companies which are junior in size and in ranking in their industries to the very big corporations will often show a much more rapid increase in their percentage of turnover and in earnings than the largest ones. Inversely, in periods of depression, the shrinkage by the smaller units is often more rapid than that of their larger competitors. Over long periods, dating back to before the last war, the general trend of corporations in this country has been one of growth, despite the terrific setbacks in the 1914-1915, the 1920-1922, the 1930-1933 and the 1938-9 periods. In those severe depressions, a number of weak companies failed to survive. Those that did are mostly in a far stronger position now than they were thirty years ago, in the industrial group.

The rate of expansion of the largest companies has been far slower than that of some of the progressive, well managed smaller units. This has been particularly true since the 1935-1937 boom in business was followed by the violent recession of 1938, then the war-stimulated business expansion of the past three years.

In order to demonstrate this, ten of the largest companies were selected, with their common stocks among the market leaders, and ten secondary companies where the business is considered well managed and the stocks "growth" issues. The names were put down without being sure that the figures would prove the case, but they did. If a better proof of it were sought, four of the leaders which showed up very well when the figures were all worked out, might have been eliminated and four with less expansion substituted. Also, three of the secondary stocks which did not show as strong figures as the other seven could have been taken out and three others with better figures put in their place. If the names of each ten had been picked just to prove the case in each group, a still stronger proof of the more rapid growth of the secondary companies than the leaders could have been given.

The first set of figures in the accompanying table shows the growth in book values between the end of 1937 (or the latest report for that year where the company has a fiscal year) and those at the end of 1942. All but one company in the list of the ten market leaders shows an increase, and all ten of the secondary stocks. The one exception is United States Steel, where a severe loss and sharp write-down of inventory occurred in 1938, which has not been made up since then in full. Incidentally, there are many differences of opinion as to how book values are figured, with some including therein all assets, less all debts and par value of all securities prior to the common stock, then dividing the number of shares of common into the remainder. Others exclude from the book value all intangible assets, and deduct all sums set up in the liability side of the balance sheet as reserves. The latter method has been used here, and in the case of U. S. Steel, for example, this gives a book value at the end of 1942 of $10 to $12 a share less than some other methods of calculating it.

In the book value of the ten market leaders, from the 1937 to the 1942 one, the average increase was 14.46%, and only two of the companies showed over 25% increase in these figures for the five years, with the largest gain for any among the ten being 36.4% in book value for the period. Among the ten secondary companies, the average increase in book value in the five years was 51.24%, with five showing over 50% increase in this item, and the top figure of such gain was 142.7%, and the second 82.8%. Many of the ten leaders have very large outstanding capitalizations, with one of over 43,000,000 shares of common stock and two others with nearly 30,000,000 shares each. Therefore, with a larger percentage of net income paid out in dividends, the per share growth in book values is at a slower pace than that of the small company with 300,000 shares of common stock, and with a smaller proportion per share of its net income going to dividends and more of it added to surplus.

An examination of the gain in net current assets per share (being the current assets less the current liabilities and the remainder divided by the number of common shares outstanding at the end of 1937 and 1942), shows that all of the twenty companies added to their financial strength in the five-year period, with only one showing under a 10% gain. The average gain in net current assets per share for the ten larger companies was 46.44%, while that for the ten secondary companies was 91.26%. Four of the market leaders showed better than 50% in

crease in the net current assets per share for the five years, with the top figure at 90.9% increase. Among the secondary companies, six showed better than 50% gain in this item, with the top one at 240.4% increase and the second at 112.8%. Besides the ones listed here, there are dozens of other corporations which have been building up their current position in recent years, and particularly during the past two.

There are no percentage figures given in the comparison of the average annual earnings for the 1936-1939 period with the estimates for 1943, because new factors have arisen which affect earnings now and did not in the pre-war years. Most important of them is taxation, with the normal and surtax rates more than double and for some companies four to six times larger, than the pre-war average. On top of this, are excess profits taxes. Therefore, comparisons in percentages or taking any one year of the 1936-9 period, are of little value. In general, however, the 1943 income reports of the ten market leaders will show close to the pre-war average and the secondary stocks will have better income this year than in the former period. In making estimates of 1943 net earnings per share, allowance was made for probable charge-offs at the year-end. Most companies make special deductions for contingencies or for changing plants from a production of war materials to peace-time activities. Such are allowable in many cases as a deduction before arriving at net income for tax purposes, and thereby a considerable savings in taxes has been possible in many instances in the 1942 reports and should be again this year.

The price comparisons are equally strong in favor of the secondary stocks. The average price recently of the ten leaders was 63.21% of the 1937 high, with the ten secondary stocks at 97.24% of the 1937 high on the average. Prices are down about 10% from the best levels reached in 1943, in this comparison. Of the ten leaders, prices recently were above 70% of the 1937 highs in four cases, with the best showing at 78%. Among the ten secondary issues, seven were above 70% of the 1937 best figures, with the highest at 206% of the 1937 top and three others at 100% or more of the best shown in 1937.

In the study of prices, consideration might be given to the fact that many of the market leaders are selling at figures which are 15 to 30 times the indicated 1943 earnings per share. Only one is at a price less than 10 times the indicated 1943 net per share. The reason for this is that the general public is familiar with these companies and their stocks have wide distribution. They are companies with enormous assets, with businesses which have been established for many years and with financial strength to weather many years of business depression, if there should be such a condition.

The secondary stocks are mostly at prices which are from 3½ to 8 times the estimated 1943 earnings per share. There are three of them, however, that are at prices in a ratio of more than twelve times 1943 net earnings per share, one being at about 27 times the earnings figure. The exceptions to the average in this group, however, are companies which did very well in pre-war days and are not showing such good earnings now, but are in line for a considerable increase in their business in the post-war period.

Another point of comparison which might be made in addition to the figures in the table is a comparison of book values to recent market values. In the case of the ten market leaders, eight are at prices from 1 1/6 to 3 times the 1942 book value. The two steel stocks, on the other hands, are less than half of their book value figure in market price. Among the secondary stocks, only one (*Please turn to page* 205)

STATISTICS SHOWING COMPARISON OF VALUES TEN LEADING COMMON AND TEN SECONDARY COMMON STOCKS.

TEN MARKET LEADERS NAME OF COMPANY	Book Value Per Share 1937	1942	% Increase	Net Current Assets Per Share 1937	1942	% Increase	Average Net Earnings per Share 1936-1939 incl.	Estimated 1943 Net per Share	Highest Sale Price of the Stock in 1937	Recent Price	Ratio Recent Price to 1937 High
E. I. du Pont de N.	$42.12	$47.28	12.0%	$13.54	$15.57	15.0%	$6.54	$4.50	180⅛	140	78%
Union Carbide & C.	27.53	31.73	15.3%	7.08	10.34	46.2%	3.87	4.25	111	79½	71%
American Can	42.74	51.14	19.8%	16.46	26.09	58.5%	5.59	4.00	121	82½	65%
Standard Oil New Jersey	46.45	48.53	4.4%	16.21	18.17	12.1%	3.88	3.75	76	57½	76%
United States Steel	141.55	122.37	Dec13.5%	41.76	60.12	43.9%	2.24	4.75	126½	52	41%
General Electric	10.43	11.30	8.3%	4.92	6.08	23.6%	1.79	1.60	64⅞	35½	54%
General Motors	18.95	23.16	22.2%	8.14	11.51	41.4%	3.99	3.50	70½	50	71%
Bethlehem Steel	116.11	131.13	12.9%	44.54	69.47	55.9%	3.69	5.75	105½	56	53%
Chrysler	29.98	40.84	36.4%	17.02	32.49	90.9%	9.68	4.00	135¼	76	56%
Johns-Manville	45.81	58.05	26.7%	22.04	38.10	72.9%	4.08	4.75	126	85	67%
Average increase			14.46%			46.44%			Average Ratio		63.21%
TEN SECONDARY											
Alleghany Ludlum	20.66	23.71	14.7%	8.02	11.64	45.1%	1.27	3.75	45⅝	26	57%
Bohn Aluminum	24.23	35.88	48.1%	15.32	17.73	15.7%	3.04	6.50	48½	43½	89%
Master Electric	9.92	15.47	55.9%	6.19	20.91	237.8%	2.44	5.75	25⅞	24½	94%
Square D	9.71	17.09	76.0%	6.18	11.43	84.9%	2.48	4.00	48⅜	36	74%
Dresser Mfg.	21.24	25.20	18.7%	9.89	14.94	51.1%	1.33	8.00	55	28	51%
Ruberoid	39.23	41.15	4.9%	43.57	51.31	17.8%	1.69	1.50	38	24½	64%
Thompson Products	19.54	31.94	63.4%	9.87	32.60	240.4%	2.68	7.50	28⅞	29	100%
Chic. Flexible Shaft	21.35	39.03	82.8%	11.25	22.13	97.6%	7.64	6.50	77	79	102%
U. S. Plywood	7.18	17.43	142.7%	4.29	9.12	112.8%	1.33	1.30	17	35	206%
Paraffine Companies	40.44	42.56	5.2%	13.82	15.19	9.4%	3.82	3.00	32½	43	135%
Average increase			51.24%			91.26%			Average Ratio		97.24%

PROFIT OUTLOOK FOR TRUCK MAKERS

BY H. F. TRAVIS

THE entire commercial vehicle industry, its parts and accessory suppliers and the sales and service organizations specializing in this field will be energized anew for a considerable period ahead through the extensive civilian truck manufacturing schedules laid down for the coming year by the War Production Board.

The first of such vehicles to be produced for civilian use since Pearl Harbor have been authorized, and under the new program total production of all types of commercial trucks will be boosted from an already authorized 33,852 units to 123,492 vehicles. These include 92,057 mediums, 21,030 light heavies and 10,405 heavy trucks. The entire program is exclusive of military vehicle production, involving at least a like number of units in the aggregate, and places a heavy burden on the truck manufacturing industry which finds itself in a quandary as to how to superimpose the new program on current war vehicle schedules.

To cope with it may mean another conversion job for the automotive industry along with extensive subcontracting for numerous parts. Bottlenecks are especially severe in gear-cutting equipment and axle building facilities as well as high power motors for the heaviest vehicles; to overcome them, new sources of supply must be opened up. Continental Motors and others are in line for orders for heavy truck motors. Eaton Manufacturing, Reo Motors, White Motors as well as various General Motors plants will be called upon to amplify the axle output of such concerns as Timken-Detroit Axle and Chevrolet Gear and Axle Division of General Motors. Further assistance is seen possible from the machine tool industry now in a slack period. To this end, Warner & Swasey, National Acme and kindred manufacturers are being lined up to make gear elements and other axle drive components in order that the super schedules outlined may be realized.

Transmissions are another worrisome factor. The rugged type, essential for heavy vehicles, is principally supplied by Spicer Manufacturing Co., Fuller Manufacturing Co. and Clark Equipment companies. These however have never been confronted with anything like the volume now specified and machine tool companies, additionally, may have to come to the rescue.

A total of 22 firms share in the new truck program against 13 which received allotments for the second half of this year. Significant is that the list of medium truck builders, besides International Harvester, includes Chevrolet and Ford for whom medium trucks present a considerable crowding of their upper limits on size. In fact all truck makers have been edged upward toward their weight limits, indicative of the growing emphasis on heavy duty vehicles.

Shortage of manpower is believed the greatest of all problems; not only are the original contractors seriously shorthanded but suppliers of essential parts are equally handicapped. To overcome this, all requirements are to be pooled and all critical components will be scheduled from raw materials to completed product to insure proportionate deliveries. New or expanded facilities will be provided in some cases to handle the enlarged program.

Difficulties in securing adequate materials and manpower to carry out the initial program of only 33,852 units were called virtually insurmountable only a short while ago and predictions were heard that sights would have to be lowered. Instead, the program has now been quadrupled, and indicative of

its urgency, WPB gave it the same priority rating as the airplane and high-octane gasoline program. This throws a new light on the growing civilian trucking crisis, due to worn-out vehicles, lack of replacement parts and insufficiency of trucks in the first instance. It has been a daily more severe drag on the war effort and the new program is primarily designed for its relief. Superimposed on heavy military schedules, likewise stressing heavy vehicles, which *must* be met, the resultant strain on all sectors of the automotive industry is obvious.

It also serves to point up not only exising but future potentialities in the truck industry. So far there has been a tendency to minimize longer range prospects on the premise that eventual release of huge numbers of military trucks after the war will cut sharply into post-war business. This view, it appears, is steadily losing in validity. The outlook now is that demand for all types of trucks, not only during but after the war may be almost insatiable, that all which can be spared from civilian and military stocks will be urgently needed abroad where by the end of the war, the havoc in all transportation fields will be incredibly severe. Current military emphasis on heavy trucks and prime movers confirms this. They are urgently needed to make up for the destruction of railroads in re-occupied countries; their rehabilitation, at best a long range job, can hardly be undertaken before the end of the war. This need will mount as our armies penetrate farther into Europe. With the opening of a second front, it will reach its apex and the demand for large cargo carrying transport units permitting extraordinary rapidity in the movement of supplies should transcend anything scheduled so far. What with the destruction that is likely to be wrought, prospects are that trucks of every description will constitute an indispensable transport medium in war-ravaged countries for quite some time.

With military truck schedules which suffered cuts in the latter part of 1942 and early in 1943, now again increased and a large civilian program on the books, truck makers are assured of capacity operations for an indefinite period. Builders of heavy vehicles would seem to be better situated now than manufacturers of light trucks. In the latter field which has become largely preempted by the "big three," General Motors, Chrysler and Ford, post-war competition will again be keen. An additional stimulus, beyond the positive factors already mentioned, will derive from the incidence of reconversion, including revival of private building and construction. Perhaps indicative of enhanced prospects in the truck industry is the fact that General Motors recently completed its holdings in the Yellow Truck and Coach Manufacturing Co. in which it formerly held a dominant interest. Yellow Truck being the largest factor in the commercial vehicle field, General Motors thus stands to benefit importantly from the improved outlook. Other truck makers also deserve attention.

Mack Trucks, one of the leading producers of heavy duty vehicles, is enjoying large war-time earnings and last year netted $5 per share against $4.93 in 1941. For the first nine months this year, $3.40 was realized on the common and the year's net should approximate $5. Working capital position has been consistently good and amounted to about $48 per share at the end of 1942. Besides a line of light trucks, suspended for the duration of the war, the company is also an important maker of buses and fire-fighting equipment. In both these categories, a large deferred demand has been built up which should add materially to post-war potentials. The company normally finances its own receivables and interest from this source has been quite substantial in the past. Additionally, a complete line of diesel engines for trucks and marine use is being made. These potentials appear conservatively capitalized at the current market price of about 31, only about six times earnings and yielding 9%. Past dividends were generous despite often erratic earnings, largely fluctuating in line with the business cycle. The new outlook should have a stabilizing effect.

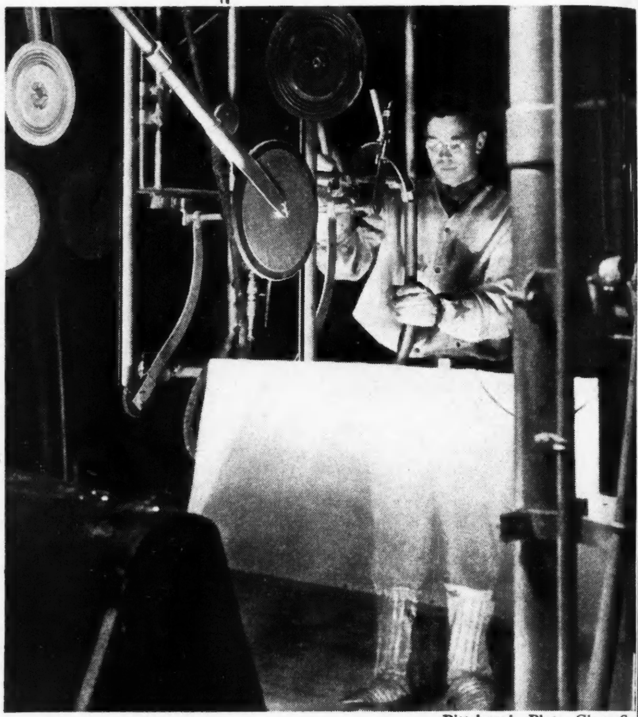
White Motor has been strong and active during the period last summer when equities generally were having an uncertain time of it. Interest is stimulated by the company's large gross business and a resultant good increase in net. In the six months through June 30, net income was $2.90 a share versus 94c the year before. In 1942, $5.10 was earned compared with $4.41 in the preceding year. An unstable earner and poor dividend payer in the past, the war proved a fillip to this old-established truck builder which since its segregation from Studebaker in 1935 has considerably broadened its operations to include a variety of lighter trucks and heavy duty types. The company is maintaining a relatively large working capital, at mid-year amounting to some $24 million, and has no funded debt or any other obligation ahead of the common. Post-war reserves of $5.83 million were set aside from earnings, amounting to over $9 per share. Selling currently at 18 or barely four times earn- (*Please turn to page* 209)

TRUCK PRODUCTION BY CAPACITIES
(thousands of units)

	¾ Ton or less	1-1½ Ton	1½-2 Ton	2-2½ Ton	2½-3½ Ton	3½-5 Ton	5 Ton & over	Total
*1941	441	68	463	125	64	15	95	1271
1940	347	43	358	54	27	9	52	890
1939	293	30	344	27	19	8	38	758
1938	195	31	246	18	10	4	26	530
1937	395	21	441	30	19	6	34	947
1936	316	10	423	31	12	5	21	818
1935	250	2	420	29	10	4	16	732
1934	172	2	376	26	11	5	7	599
1933	99	0.8	228	16	8	9	4	358
1932	79	1.6	144	7	6	3	4	245
1931	109	5	289	8	11	5	6	434
1930	145	31	370	16	23	6	8	600
1929	142	79	524	28	33	9	12	827

* includes military vehicles.

Remarkable Advances in Glass



Pittsburgh Plate Glass Co.

Frosting plate glass

What About Earnings Potentials?

BY J. C. CLIFFORD

RESEARCH has long been the hallmark of American industry but the war has taught us that research not only pays but is one of the best guarantees of national security. The glass industry is an outstanding example. At least a thousand varieties of glass have war uses.

Window glass, lamp bulbs, arc lamps and fluorescent lighting tubes enable us to operate war industries continuously, day and night, independent of weather and sunlight. Multi-layered plate glass, bonded by plastics, protects men in the armed forces in trucks, tanks, armored cars, battleships and bombers. Men fight behind this transparent "steel," as it has appropriately been called, and are unafraid. They can see, yet they are fully protected.

A single airplane has many different kinds of bulbs, even those which yield black light to render fluorescent controls and maps visible to the pilot but invisible to the enemy. X-ray bulbs reveal defects in war materials so that we can reject defective parts and insure safety. They locate shrapnel and fractures in the wounded men at field hospitals.

Glass bottles carry the blood plasma and the sterile water which furnish new blood to the wounded on the battlefield. Glass mats and woven glass ribbon and cloth serve as separators to insulate storage batteries and electrical machinery. Special glass ribbon filters the dissolved blood plasma in hospitals and in the field, and is a part of each plasma outfit. There you also find glass sutures or thread for stitching or sewing up wounds.

Glass cloth is non-inflammable. It may be waterproofed and used in tarpaulins to protect war equipment against moisture, snow or rain. Glass wool is a fine insulator against heat and cold. A four-inch layer will insulate as well as a 14-foot concrete wall. It is used to keep trucks, tanks and huts warm in the Arctic regions, and to keep heat out in the tropics. It is vermin-proof and rodent-proof. Used as insulation in a battleship, it is so light that the vessel's carrying capacity may be increased by 60,000 pounds as compared with former insulating methods.

In the stratosphere, glass wool helps to prevent heat loss in planes and serves as a filter in ignition systems where it lets gases through but prevents backfiring. Glass fibres have been combined with a plastic to create a new material of remarkable strength which can be molded into aircraft structural parts with low pressure and without the use of expensive molds. Experimental samples of this material which can be machined and has the dimensional stability of the metals, have been produced with tensile strengths of over 80,000 pounds per square inch.

Optical and precision glass is employed in bomb sights, gun-sights, filters and many optical instruments. Case-hardened glass is indispensable in naval craft for port lights and screens, for dials on navigation instruments and for anti-aircraft searchlights.

Then, there is laminated safety glass, perfected to a high degree, to streamline combat planes by using a revolutionary process of "bending" it beyond any

thing ever required in peace time. "Foamglas" a new type of opaque glass that floats like cork has found wide application as the buoyant element in life preservers, boats, life rafts, etc.; additionally it has valuable insulating properties and is widely used for refrigeration purposes.

Innumerable war uses of glass could be mentioned; their number is legion but the full story will not be known until after the war. What it may mean in terms of post-war potentialities is obvious. The field of application for civilian uses has barely been scratched. Glass, the world's oldest plastic, will henceforth compete with steel, textiles and many building materials; with other plastics, rubber and numerous metals, especially the light metals. Glass furniture had come into vogue just prior to the outbreak of the war. Looking forward to the post-war era, manufacturers are now experimentally constructing kitchens and entire houses of glass, the latter built of a type called thermopane which collects the sun's rays and is said to reduce net cost of heating about one-third. Owens-Illinois Glass Co., one of the leaders in the field, is famous for its glass blocks and insulation materials. Owens-Corning Fibre Glass Co., pioneering glass fibre, has developed entirely new fire-proof structural insulating materials. The former even now is experimenting with an all-glass container—glass jar and closure—offering considerable promise for the future. Pittsburgh Plate Glass Co., originator of "Foamglas" is equally famous for its architectural glass which is expected to find wide post-war application in building construction.

Many New Uses

Glass piping is another development with wide industrial potentialities. Presently replacing tubing made from special rubber or scarce metals, it far outdoes the latter in its resistance to heat, acids and other erosive chemicals. Its cost-saving characteristics bid well for the future.

Glass fibres, softer than wool or silk, have become increasingly entrenched in the textile field. They are now widely used for the manufacture of curtain materials, tapestries, upholstery materials and a great variety of useful insulation materials. You can find them even in such everyday articles as neckties, women's wearing apparel and fabric uppers for shoes. Considering the entire range of applications, glass can truly be called at once the most versatile and utilitarian material we know today.

One of the outstanding characteristics of the glass industry is its concentration. In the flat glass field, three companies, Pittsburgh Plate Glass Co., Libbey-Owens-Ford and the American Window Glass Co. predominate. In the glass container field, Owens-Illinois-Glass and Hazel Atlas Glass Co. account for the major proportion of output. All these concerns should participate importantly in the benefits arising from existing potentialities. Pittsburgh Plate Glass Co., which also has a very profitable paint division, manufactures virtually every kind of plate glass, safety glass and window glass. An intelligent policy of research has vastly contributed to the company's expansion in past years. In the field of newer glass applications, the company is well-known for its structural glass, glass blocks for building, architectural glass and Foamglas produced by its Pittsburgh-Corning subsidiary.

Through other subsidiaries, the company has an additional stake in the chemical field where it has become a leading factor in the manufacture of sodas ash, caustic soda and chlorine. New research is laying the groundwork for Pittsburgh to become an even more important chemical producer in a number of new lines. Additionally, the company has developed the sensational new plastic known as "C.R.39," a secret composition. The paint division manufactures a full line of paints, lacquers and varnishes. This great diversification of business made for exceptional earnings stability in the past, with net per share averaging about $6 permitting liberal dividends. Despite loss of the important automotive outlet for plate glass, war time earnings were maintained at high levels with 1942 net amounting to $5.09 per share against $6.82 in 1941. This year's earnings may drop somewhat below last year's due to narrow profit margins on Government orders, idleness of some plants and rising costs but long-term growth in sales and profits is held assured.

Libbey-Owens-Ford, a (*Please turn to page* 206)

STATISTICAL RECORD OF GLASS COMPANIES

	1936-39 Avge. Net per Share	1936-39 Avge. Div. per Share	Recent Earnings per Share 1940	1941	1942	Recent Dividends per Share 1940	1941	1942	Price Range 1943	Recent Price	* Yield %	Price-Earnings Ratio
Pittsburgh Plate Glass	5.91	4.56	6.30	6.82	5.09	5.00	5.00	3.50	98 -84¾	95⅝	4	19/1
Libbey-Owens-Ford	3.28	2.87	3.96	3.52	0.74	3.50	3.50	1.00	43⅜-31	37¼	2.7	24/1
Owens-Illinois-Glass	4.07	3.37	2.71	3.40	3.46	2.00	2.50	2.00	64 -54½	59¾	3.3	15/1
Hazel-Atlas Glass	6.21	6.05	5.98	6.63	5.69	5.00	5.00	5.00	110½-93½	102	5	18/1
Anchor-Hocking Glass	1.05	0.70	1.43	1.36	1.96	0.80	0.90	1.00	23½-16⅛	19¾	5	10/1

*Son basis of 1942 dividends.

The Growth Promise
In Canada Dry

BY ROGER CARLESON

DESPITE recent market sensations in some of the liquor stocks, Canada Dry is selling well under its high for the year (it is currently around 21½, compared with the range of 24⅞-13⅞). While the company is usually and properly listed in the "beverage" group, sales in 1941 were about 38 per cent in "hard liquors" and 62 per cent in carbonated beverages. It is in the soft drinks that progress was fastest in recent years and promise is greatest.

Imported liquors distributed by the company include Johnny Walker Scotch, John Power & Son Irish Whiskey, Daiquiri Rum and Cinzano Vermouth. The company also handles several domestic whiskeys and manufactures Holloway's Gins and Nuyens Cordials. In 1942 the company entered into an agreement to distribute the California wines of the Italian Vineyard Company (established 1883) whose wines come from the world's biggest vineyard.

The soft drinks consist of Canada Dry Ginger Ale and the lower-priced Carleton Club, sparkling water, Spur (a cola drink), Tom Collins Mix, and a variety of flavored drinks. Canada Dry Ginger Ale, Ltd. manufactures and distributes carbonated beverages in Canada, the business accounting for 15 per cent of system earnings. Another subsidiary, Canada Dry International, Inc., licenses bottlers operating plants in South and Central America, the West Indies, New Zealand and other countries.

While sales tend to follow the business cycle and dropped more than one-half in the years 1930-1933, this loss was more than recovered in the next four years. Sales continued to gain rapidly during the war-time period, being currently at well over twice the 1929 level. For the nine months ended June 30th, sales were $23,103,806, a gain of 32 per cent over last year.

Due to the sharp rise in operating costs and taxes, however, the company has not yet been able to duplicate the record of 1929 when over one quarter of sales was carried to net income, yielding $6.92 on the stock. Share earnings dropped to 84 cents in 1932, and the stock itself dropped even faster—from the 1929 high of 98¾ to a depression low of 6. As indicated in the accompanying table, earnings remained irregular until 1937, when they recovered to $1.19. A further gain to $2.70 in 1941 has been well maintained in 1942-3 despite sharp tax increases. For the first nine months of the fiscal year 1943 (which ends September 30th) $1.90 was earned compared with $1.68 in the previous year, indicating the possibility of $2.75 or more for the current fiscal year.

The stock is currently selling at less than eight times earnings, possibly due to the low dividend rate —70 cents for the calendar year 1943 (the figures in the table are for fiscal years). The latest quarterly dividend, payable December 10th to holders of record November 24th, was 25 cents compared with earlier quarterly payments of 15 cents.

A large part of net income in recent years has gone into increased inventories, as with other liquor and beverage companies. At the end of the 1942 fiscal year inventories were in excess of $5,000,000 as compared with $1,650,000 in 1939. Cash items were $1,350,000, about the same as in previous years. The current ratio was 3.5 to 1.

While the company has resorted to bank loans from time to time, there is no funded debt and only one class of stock—604,157 shares of common ($5 par). An issue of 30,208 shares of preferred, with dividend rate of either $5 or $5.50 (to be determined), has been authorized but not issued. In March 1942 the company withdrew its registration

(*Continued on page* 206)

THE STATISTICAL RECORD

Year Ended Sept. 30	Net Sales*	% Oper. Income of Sales	Income Taxes*	Net Income*	Amount per share Earn.	Amount per share Paid.	Approximate Price Range
1942	$23.7	15.2%	**$1.42	$1.58	$2.61	$1.00	15- 9
1941	22.7	13.7	1.01	1.64	2.70	0.45	18-11
1940	18.4	8.9	0.25	1.00	1.63	Nil	24-12
1939	16.6	9.8	0.11	1.16	1.88	0.50	20-12
1938	14.9	7.4	0.14	0.69	1.12	0.25	22-12
1937	14.9	8.1	0.25	0.73	1.19	Nil	38-10
1936	10.0	4.6	0.06	0.18	0.36	Nil	31-10
1935	9.2	6.6	0.05	0.24	0.47	0.70	18- 8
1934	9.6	7.3	0.06	0.44	0.86	1.00	30-13
1933	6.2	10.3	0.05	0.46	0.89	1.05	42- 9
1932	7.0	11.1	0.06	0.42	0.84	1.65	16- 6
1929	13.4	31.7	0.41	3.53	6.92	4.75	99-45

* In millions of dollars ** After deducting postwar credit.

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STREET

Answers to Inquiries

The Personal Service Department of THE MAGAZINE OF WALL STREET *will* answer by mail or telegram, a reasonable number of inquiries on any listed securities in which you may be interested or on the standing and reliability of your broker. This service in conjunction with your subscription should represent thousands of dollars in value to you. It is subject only to the following conditions:

1. **Give all necessary facts, but be brief.**
2. **Confine your requests to *three listed securities.***
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York Ice Machinery

On the recommendation of my broker I recently bought 100 shares of York Corp. common stock at 7⅞. I know a fellow should satisfy himself before he makes a purchase but will you be kind enough to tell me something about what you know and think of the possibilities of this company?—V. R. P., Lexington, N. Car.

York Corp., formerly the York Ice Machinery Corp., is one of the largest factors in the manufacture and installation of industrial and commercial refrigeration and air-cooling equipment. Normally, the principal demand for installation of air-conditioning equipment comes from commercial and residential buildings but during 1941 and 1942, the application of refrigeration and industrial air-conditioning to Army and Naval establishments, fighting ships and cargo vessels, and to industries serving the needs of the Armed Forces, accounted for most of production. The remainder consisted of the manufacture of direct implements of war and tools and other equipment essential to war work. On June 29, 1942, The York Ice Machinery Corp. and its wholly owned subsidiary York Corp., were merged to form the present company. Its debt obligations total $4,951,050, besides which it has outstanding 962,046 shares of common stock of $1.00 par value.

The company's balance sheet as of September 30, 1942, showed total current assets of $16,017,088 as compared with total current liabilities of $5,825,274, leaving net working capital of $10,191,614. Cash amounted to $1,056,137 while notes payable amounted to $2,150,000. The book value of the common stock was $11.84 per share. The company earned $1.11 per share on the new common stock in 1942. For the nine months ending June 30, 1943, it showed 83 cents per share as compared with 56 cents in the same period of 1942. The company stated that it had been discharged by the Price Adjustment Board of all liabilities under the Renegotiation Act for the fiscal year ending September 30, 1942, after an investigation had revealed no excess profits.

Expanding sales indicate earnings of about $1.25 for the fiscal year ending September 30, 1943. The company is said to be booked to capacity and well sustained results for the coming year are indicated. Unfilled orders on June 30, 1943, amounted to over $25,000,000 and since then the company has received substantial contracts for refrigeration equipment for new synthetic rubber plants. Prospects of this company in a post-war period appear favorable and the stock does not appear over-priced around $7.25 per share.

Texas Gulf Producing

As a subscriber I read with interest the survey on low priced oils in your October 30th issue. I am particularly interested in Texas Gulf Producing. Have you some information or comment re purchase of this stock at the present time?—J. J. T., New York, N. Y.

Texas Gulf Producing Company is an independent producer of oil and gas, operating principally in the gulf coast area of Texas, its main production coming from the Barbers Hill Field. The entire output of this field, constituting about 90 per cent of company's total, is sold to Atlantic Petroleum Purchasing Corporation, a subsidiary of the Atlantic Refining Company, under a contract expiring November 1, 1945, at average posted prices. The company has no funded debt, its sole outstanding capitalization consisting of 889,606 shares of common stock of no par value. There has been authorized 50,000 shares of preferred stock of no par value but none of this stock is outstanding.

Balance sheet as of December 31, 1942, showed total current assets of $744,953 as compared with total current liabilities of $75,177, a ratio of better than 9 to 1. Cash and U. S. Treasury securities amounted to approxi-

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FOR PROFIT AND INCOME

Looking at Both Sides

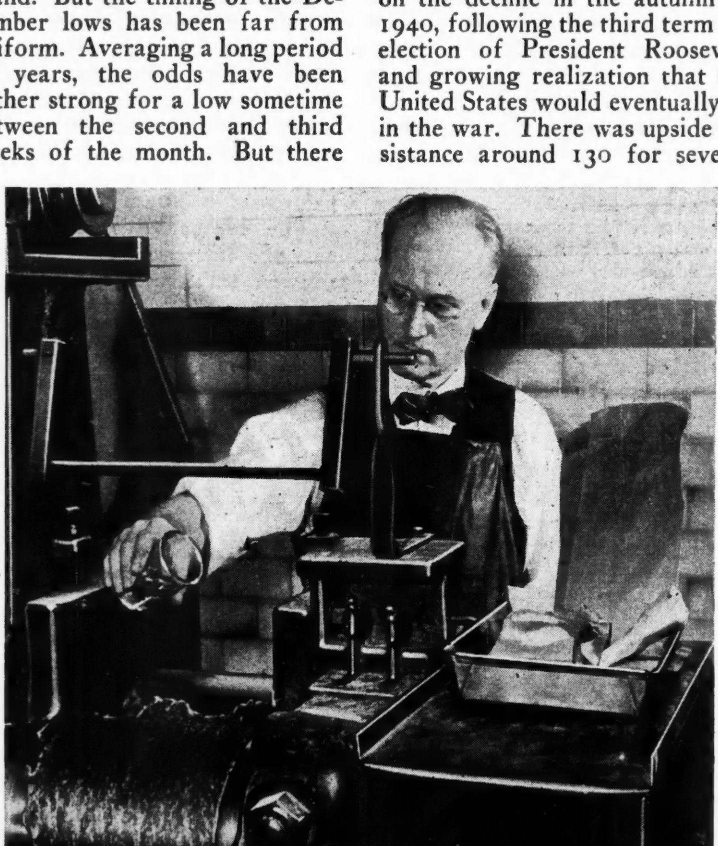
As an argument for the bull side, one well-known investment advisory organization points out that since 1924, or a period of twenty years, the Dow-Jones industrial average failed on the up side to reach or exceed the 130 level (about where it is at this writing) in only four years: namely, 1932, 1933, 1934 and 1942. That is true enough. But, to keep the record straight, it might be added that at some time within thirteen of the past twenty years the average has moved substantially *below* the 1930 level. To be specific, it got as low as 95, or lower, in 1924, 1931, 1932, 1933, 1934 and 1942. It was as low as 100 in 1935 and 1938; as low as 110 at some time in 1940 and 1941; as low as 115 in 1937; and as low as 120 in 1925 and 1939.

December Markets

The most persistent of all market "habits" has been that of making a low at some time in December, followed—even in bear markets—by a rebound running beyond the year-end. There is at least some logic in this. The closing weeks of the year are accepted as the period for readjustments; and, in modern years of high income taxes, tax-selling has become important. The "year-end rally" used to be considered as due on the basis of re-investment demand —financed out of December interest and dividend receipts, the latter always being largest in the final month — or on speculative anticipation thereof. In modern years the expectation has rested more on the lifting of tax-sales pressure than on re-investment demand. But the timing of the December lows has been far from uniform. Averaging a long period of years, the odds have been rather strong for a low sometime between the second and third weeks of the month. But there have been quite a few exceptions, represented by lows in the first or last weeks of December. Many more times than not, the December average low has been lower than any level reached in November—but there have been exceptions to this too. Last year there was a modest reaction in November, with an uptrend throughout December.

Resistance Level

Both in advance and declines the 130-128 level in the Dow industrial average has frequently proved a stubborn point to penetrate. There was support here when the war-anticipation decline of the late summer of 1939 climaxed in heavy volume on the first day of the conflict that did not become accepted as World War II until 1940. There was support here again for some time on the decline in the autumn of 1940, following the third term re-election of President Roosevelt and growing realization that the United States would eventually be in the war. There was upside resistance around 130 for several



"Uskol" is a sixth type synthetic rubber just developed by the U. S. Rubber Company for applications where great resistance to oils and greases is required

weeks last March. Thus, the 130-128 area may be one at which the market will "kill some time"; and, conceivably, it might wind up, at least for this year, the irregular retreat that the market has been engaged in since last July. But the great majority of analysts have their fingers crossed as they "wait to see." They would feel much more confident of this level if it should still prevail around mid-December. Breaking 128 on volume, the next resistance level to which eyes of chartists would automatically turn would be 122-120.

VARIATIONS IN RECENT EARNINGS REPORTS

	Period	Earned per Share 1943	Earned per Share 1942	Recent Price	Range 1943
Park & Tilford	9 mos. Sept. 30	$3.87	$2.14	50	52½-17½
Anaconda Copper	9 mos. Sept. 30	2.98	3.17	24½	31⅞-24⅛
Sherwin-Williams	Yr. to Aug. 31	5.07	7.43	93	100-83
Atchison	9 mos. Sept. 30	13.86	16.85	51	67⅞-44¾
Atlantic Coast Line	9 mos. Sept. 30	14.30	16.37	26	38 -24⅞
Chrysler	9 mos. Sept. 30	3.91	3.33	74¾	85⅜-67⅝
Reading	9 mos. Sept. 30	4.48	5.92	14¾	22⅝-14⅜
United Aircraft	9 mos. Sept. 30	4.14	3.55	27½	40 -25⅜
Wesson Oil & Snowdrift	Yr. to Aug. 31	3.33	1.87	21⅝	26½-17⅞
Pullman	9 mos. Sept. 30	2.25	3.40	35½	40⅛-26¾
Allen Industries	9 mos. Sept. 30	1.08	1.12	9¾	11½- 7
Paramount	9 mos. Oct. 2	3.11	3.00	22⅞	30 -15½
Sterling Drug	9 mos. Sept. 30	3.23	2.90	61	66 -58½
United Carbon	9 mos. Sept. 30	3.37	3.23	58¼	69½-55½
Commercial Credit	9 mos. Sept. 30	2.43	2.51	36	44 -25½
International Nickel	9 mos. Sept. 30	1.49	1.57	25⅝	36½-25⅝
Thompson Products	9 mos. Sept. 30	6.43	6.29	30	33½-26¼
Bigelow-Sanford	9 mos. Oct. 2	.39	3.00	34	38⅝-27⅜
Bohn Aluminum	9 mos. Sept. 30	4.45	4.60	42	56½-41⅛
Briggs Mfg.	Sept. 30 quar.	.68	.57	24½	30½-20⅝
Brewing Corp.	Yr. to Sept. 30	5.56	4.85	44	45 -20
International Paper	9 mos. Sept. 30	1.73	2.07	12	13⅞- 8¼
Scott Paper	9 mos. Sept. 30	1.49	1.69	38	43 -38
Western Union	9 mos. Sept. 30	5.06	6.23	42	49¾-37⅛
Flintkote	Yr. to Oct. 9	1.84	1.80	18	22⅛-15⅜

Merchandising Stocks

Up to this writing neither the department store stock group nor the mail order group have broken their early August lows. In other words, on the general reaction merchandising shares have performed better than the composite market average, just as they also advanced more than the market on the major rise from 1942 lows to the summer high. Superior resistance to reaction may provide a clue to stocks likely to be outstanding on the next important market advance. But, before acting on this clue in the case of merchandising stocks, we would prefer to wait a while and see what happens in the event of further test. Sometimes a previously favored group is merely late in getting its reaction. For instance, "leader" type industrials in general for some time were stronger than the market on the reaction, but weakened sharply in many instances on the most recent market unsettlement. If present prices of most of the investment-type retail stocks are compared with 1936-1937 bull market highs, one wonders whether the scope for renewed major rise can be so great —and whether they have yet come down to an adequately solid technical base. In the post-war transitional period there will be consumer demand for "hard goods" as fast as larger supplies become available. But volume in general merchandise is at record highs now and could well suffer an extensive shrinkage if employment and payrolls decline as much in the readjustment phase as many economists anticipate. Moreover, profit margins per dollar of sales are in many instances abnormally high now, for a variety of temporary reasons including emphasis on higher-price items, no clearance sales, curtailed deliveries and returns, credit account restrictions, fewer sales clerks in ratio to volume, etc. Unlike industries that are "working for the Government", here is a field in which wartime profit margins appear wider than they are likely to be in peacetime. It is something to think about as one appraises retailing shares.

The Movies

From their bull market highs to this writing the motion picture stocks have had the following approximate declines: Loew's, 17 per cent; Paramount, 23 per cent; Warner Brothers, 31 per cent; Twentieth Century-Fox, 18 per cent; RKO, 36 per cent; Columbia Pictures, 22 per cent. Usually, the more speculative the issue, the greater the decline. But on this test, Columbia should have declined more than Paramount, without much room for argument. We'll keep our fingers crossed. Maybe it will yet catch up with, or pass, Paramount on the down side. Though some will debate it, this column likes Paramount better than Twentieth Century-Fox. The latter yields nearly 10 per cent dividend return at the present price, Paramount about 7 per cent. Evidently the market considers Paramount's dividend the more assured of the two. Of course, if one is looking for income from a movie stock, there is none in a class with Loew's, especially as regards the back record of dividend regularity. This stock is now priced on a yield basis of nearly 7.5 per cent. As compared with the position on August 2, when the industrial average made a low of 134, all the movies have weakened with the market subsequently; but with the sharpest adverse changes in Loew's, Warner and RKO; while Paramount, Twentieth Century and Columbia thus far are only modestly under their August 2 lows. For a wartime period, with radically higher corporate taxes, Paramount's dividend record in recent years is most unusual: 1938, nothing; 1939, 15 cents; 1940, 45 cents; 1941, 90 cents; in 1942, $1.05; 1943, $1.30, with the recent payment of 40 cents indicating $1.60, at least, on an annual basis. The

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Answers to Inquiries

(*Continued from page* 197)

mately $423,000, or over five times total current liabilities. Notes payable were completly liquidated in 1942. The book value of the common stock on December 31, 1942, amounted to $5.62 per share.

The company earned 46 cents per share in 1942 as compared with 36 cents in 1941. In the first six months of 1943, it showed 23 cents as against 21 cents for the same period of 1942. The company has paid dividends continuously for the past 7 years and last year paid 20 pents per share. The price range this year on the New York Stock Exchange has been: high 6⅝; low 3⅛; last 4⅝. The stock yielding slightly less than 4 per cent from the 20 cent dividend rate has some appeal as a low-priced speculation. A favorable consideration is the fact that output of the company's main property is particularly suitable for production of aviation gasoline.

Farnsworth Television

Please give me the financial condition, capitalization, and rating of Farnsworth Radio & Television. I have not been able to get much information on this.—M. M. C., Cleveland, O.

Farnsworth Television & Radio Corporation was incorporated with special charter on December 13, 1938, under the laws of Delaware. The company has plants in Fort Wayne, Marion and Bluffton, Indiana. It manufactures radio and radio phonograph sets and also Capehart Radio phonographs and is a pioneer in the field of television. They created the Farnsworth electronic system of television, the modern method now in general use. This company and its predecessors have maintained laboratories for research in electronics for the past 17 years. At the present time, it is devoting its production to electronic and communication equipment for war use.

Record for the years 1939 to 1941, inclusive, showed a deficit. For the fiscal year ended April 30, 1942, it showed 46 cents per share of common as compared with 66 cents for the fiscal year ended April 30, 1943. Gross income which amounted to $2,964,920 for the fiscal year of 1940 increased to $26,583,301 for the fiscal year 1943. According to the latest available balance sheet, the company has no funded debt or preferred stock, its capitalization consisting of 1,505,997 shares of common stock with a par value of $1.00. As of April 30, 1943, total current assets amounted to $12,806,261 as compared with total current liabilities of $9,868,861 and net working capital of $2,937,400. Cash increased to $4,346,142 but notes payable to banks total $5,149,654 as compared with only $823,468 on April 30, 1942. The book value of the common stock amounted to $2.73 per share.

The common stock was recently listed on the New York Stock Exchange and has had a price range thus far this year on said exchange of: 11⅛; low 9⅝; last 10⅞. No dividend is being paid at the present time.

On December 31, 1942, the company negotiated a new credit agreement with a group of commercial banks, providing for loans up to $6,000,000 under Regulation V-loan procedure. Agreement runs to December 31, 1944.

The company has license agreement with Philco Corporation, American Telephone & Telegraph Company, et al. It also has license agreement with the Radio Corporation of America whereby each party acquired the right to use the inventions of the other in the field of television, and in other lines of their respective businesses. However, neither party acquired any right to grant sub-licenses to third parties under the patents of the other company. In July, 1942, the United States War and Navy Department entered into a patent license agreement with the company covering its American patents. The license applies to all electronic equipment in communications and related fields manufactured for the military services during the war.

The company affords a modern illustration of the way a business can grow out of pure research, but it will operate in a keenly competitive field after the war and earnings potentialities are quite conjectural.

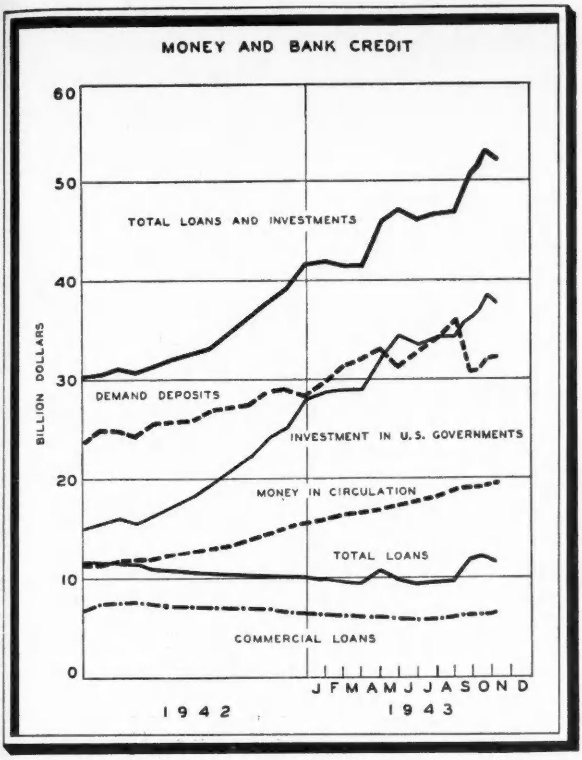
We prefer to buy this stock lower than 10⅞.

Curtiss Wright

As a subscriber of your magazine I would like you to advise me on Curtiss Wright. Would you advise buying at today's price?—F. W. E., Oak Park, Ill.

Curtiss Wright Corporation earned $1.46 on its common stock in 1942 as compared with $3.15 in 1941. The stock market action of airplane companies' equities recently has been very unimpressive and it is evident that many investors are of the opinion that peace is imminent and do not care to hold equities in this category. In the pre-war years of 1936-1939, inclusive, the highest this company earned on its common stock was 39 cents and the lowest was a deficit of 17 cents. The common stock has had a price range this year of a high of 9½, low 6⅞, last 7.

The company paid $1.00 on its common stock in 1942 and the procedure has been to pay one dividend late in the year. It has not taken any action on the common stock dividend to date but should a liberal dividend be declared we do not think the stock will appreciate much from this level and do not recommend making commitments in same. If you desire to buy a security of this company, the $2.00 class "A" stock which sold as high as 24½ this year and is now selling at 16⅞, looks much more attractive from an income point of view. While the dividend is not cumulative, the class "A" stock is entitled to $2.00 a year dividend before any distribution can be made on the common stock. The $2.00 dividend rate was well covered in 1942, the company showing $11.34 on this stock. If the company only paid $1.00 a year on the class "A" stock, the indicated income yield on the current price is approximately 6%, at which price it looks like a good speculation.



CONCLUSIONS

MONEY AND CREDIT—Bank credit expansion, with its inflationary impact upon commodity prices, wages and profits, is fast losing momentum.

TRADE—September retail store sales 6% ahead of last year in value; but about even in volume.

INDUSTRY—Business activity recedes moderately; but munitions output continues to rise without further increase in total civilian employment.

COMMODITIES — Farm products price average is probably nearing the end of its steep war-time climb.

The Business Analyst

Though the drop of approximately a point in our index of per capita **business activity** during the past fortnight was occasioned mainly by the coal miners' strike, it is doubtful if settlement of this disturbing influence will be followed in the near future by full business recovery to the all-time high record achieved a few months ago.

* * *

With war plant construction near completion, non-ferrous metals are now being produced in greater quantities than called for by present armament schedules, with enough left over to resume production of scarce civilian durable goods on a small scale. It is significant in this connection that the WPB has just announced that it will stop paying premiums on **copper** from marginal mines.

* * *

Retail store sales during September were 6% ahead of last year in value; but registered little change in volume. **Department store sales** in the four weeks ended Nov. 6 were only 10% above the like period last year, compared with a cumulative increase of 13% for the year to date.

* * *

Mr. Nathan S. Sachs, president of the Retail Credit Institute of America, urges retailers to strengthen their **credit positions** now to fore-

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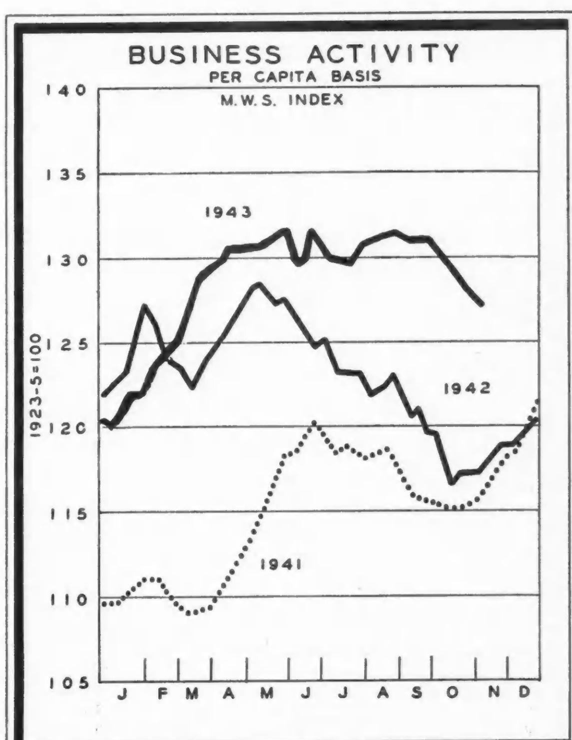


Inflation Factors

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
FEDERAL WAR SPENDING (tf) $b	Nov. 10	200	1.75	1.82	0.43
Cumulative from Mid-1940	Nov. 10	141.5	13.95	57.1	14.3
FEDERAL GROSS DEBT—$b	Nov. 10	165.4	165.1	94.1	55.2
MONEY SUPPLY—$b					
Demand Deposits—101 Cities	Nov. 10	32.0	31.8	28.9	24.3
Currency in Circulation	Nov. 10	19.5	19.4	14.4	10.7
BANK DEBITS—13-Week Avge.					
New York City—$b	Nov. 10	4.96	4.90	3.70	3.92
100 Other Cities—$b	Nov. 10	7.56	7.51	6.13	5.57
INCOME PAYMENTS—$b (cd)	Sept.	12.54	11.68	10.45	8.11
Salaries & Wages (cd)	Sept.	8.68	8.47	7.08	5.56
Interest & Dividends (cd)	Sept.	0.99	0.47	0.89	0.55
Farm Marketing Income (ag)	Sept.	1.94	1.77	1.73	1.21
Includ'g Govt. Payments (ag)	Sept.	2.00	1.85	1.75	1.28
CIVILIAN EMPLOYMENT (cb) m	Oct.	51.9	52.5	52.4	50.2
Agricultural Employment (cb)	Oct.	10.7	11.3	10.5	9.0
Employees, Manufacturing (lb)	Sept.	16.2	16.2	15.2	13.6
Employees, Government (lb)	Sept.	5.8	5.8	5.5	4.5
UNEMPLOYMENT (cb) m	Oct.	6.7	0.8	7.6	3.9
FACTORY EMPLOYMENT (lb4)	Aug.	170	170	157	141
Durable Goods	Aug.	230	229	193	168
Non-Durable Goods	Aug.	122	122	124	120
FACTORY PAYROLLS (lb4)	July	315	317	243	189
FACTORY HOURS & WAGES (lb)					
Weekly Hours	Aug.	45.0	44.4	43.0	40.3
Hourly Wage (cents)	Aug.	96.5	96.3	87.0	78.1
Weekly Wage ($)	Aug.	43.43	42.76	37.38	32.79
PRICES—Wholesale (lb2)	Nov. 6	102.9	102.8	99.7	92.2
Retail (cdlb)	Aug.	133.4	133.9	126.0	116.1
COST OF LIVING (lb3)	Sept.	123.9	123.4	117.8	110.2
Food	Sept.	137.4	137.2	126.6	113.1
Clothing	Sept.	132.5	129.6	125.8	113.8
Rent	Sept.	—	—	108.0	107.8
RETAIL TRADE					
Retail Store Sales (cd) $b	Sept.	51.8	4.92	4.84	4.57
Durable Goods	Aug.	0.76	0.78	0.85	1.07
Non-Durable Goods	Aug.	4.15	4.16	3.77	3.47
Chain Store Sales (ca)	Oct.	181	179	181	151
Dept. Store Sales (rb) (1)	Oct.	145	132	128	116
Dept. Store Stocks (rb2)	Sept.	110	114	125	95
MANUFACTURERS'					
New Orders (cd2)—Total	Sept.	282	275	264	212
Durable Goods	Sept.	423	406	390	265
Non-Durable Goods	Sept.	192	191	183	178
Shipments (cd3)—Total	Sept.	261	258	224	183
Durable Goods	Sept.	356	354	283	220
Non-Durable Goods	Sept.	187	183	177	155
BUSINESS INVENTORIES—$b					
End of Month (cd)—Total	Sept.	27.8	27.6	29.0	26.7
Manufacturers'	Sept.	17.7	17.6	17.4	15.2
Wholesalers'	Sept.	3.9	3.9	4.2	4.6
Retailers'	Sept.	6.2	6.1	7.4	6.9

PRESENT POSITION AND OUTLOOK

(Continued from page 201)

stall a collapse of the nation's distribution channels after the war. He points to dangerous signs of rapid disappearance of retail capital totaling hundreds of millions of dollars formerly in customers' accounts. "Money which for generations has been invested in working capital assets of retail stores has been turned into cash and is being spent, lost or reinvested in permanent holdings entirely outside of retailing."

* * *

The Treasury estimates that **government borrowing** during the remainder of the current fiscal year need not exceed $40 billion. A sizeable portion of this will doubtless be for refunding purposes according to a recent analysis by the National City Bank. It appears that receipts are running at an annual rate of about $3 billion above budget estimates, and expenditures about $15 billion below; so that the indicated deficit for the remainder of the fiscal year should not exceed $31 billion. By using $10 billion of excess cash now held by the Treasury, only $21 billion would be left to take care of. Receipts from social security taxes and regular sales of war savings bonds would cut this figure to $12 billion, a considerably smaller sum than raised in the Third War Loan Drive.

* * *

The Bank concludes that Treasury requirements for the balance of this fiscal year can be met without further **borrowing from commercial banks,** with its inflationary creation of new deposits; and it may be that cash needs thereafter can be financed out of taxes and savings.

* * *

Should these expectations materialize, it would seem that we are approaching, but probably have not quite reached, the peak in **bank credit expansion** with its inflationary impact upon commodity prices and business profits.

* * *

Cash **dividends** declared in October, according to the Commerce Department, totaled $300.6 million, or $3.8 million ahead of last year. Government estimates place total corporate **profits** after taxes this year at $8.55 billion, the largest on record. This compares with the two previous "boom" peaks of $8.08 billion in 1929 and $7.34 billion in 1917. Compared with 1929, however, the estimate for 1943 looks for dividends of only $4 billion and "retained net income" of $4.55 billion against $5.93 billion and $2.16 billion, respectively, in 1929.

* * *

In a recently released study on **post-war international trade,** the Commerce Depart-

PRODUCTION AND TRANSPORTATION

	Date	Latest Wk. or Month	Previous Wk. or Month	Year Ago	Pre-Pearl Harbor
BUSINESS ACTIVITY—1—pc	Nov. 6	126.7	127.8	117	118.2
(M. W. S.)—1—np	Nov. 6	153.4	154.7	142	139.5
INDUSTRIAL PRODUCTION (rb3)	Sept.	243	242	208	174
Durable Goods, Mfr.	Sept.	367	365	299	215
Non-Durable Goods, Mfr.	Sept.	177	177	161	141
STEEL INGOT PRODUCTION (st)m	Oct.	7.79	7.49	7.58	6.96
Cumulative from Jan. 1	Oct.	74.08	66.29	71.55	75.69
ELEC. POWER OUTPUT (K. W. H.)m	Nov. 6	4,414	4,453	3,762	3,369
ENGINEERING CONSTRUCTION AWARDS (en) $m	Nov. 11	63	35	304	93.5
Cumulative from Jan. 1	Nov. 11	2,780	2,757	8,462	5,692
PETROLEUM—bbls. m					
Crude Output Daily	Nov. 6	4.39	4.38	3.84	4.11
Gasoline Stocks	Nov. 6	68.70	69.30	76.34	87.84
Fuel Oil Stocks	Nov. 6	63.55	63.84	79.06	94.13
Heating Oil Stocks	Nov. 6	44.78	44.59	49.79	54.85
CARLOADINGS—t	Nov. 6	755	884	830	833
Grain	Nov. 6	56	58	42	43
Coal	Nov. 6	42	146	163	150
Manufacturing & Miscellaneous	Nov. 6	396	409	388	379
Mdse., L. C. L.	Nov. 6	105	107	91	156
Ore	Nov. 6	73	77	67	36
GENERAL					
Bituminous Coal Prod. (st)m	Nov. 6	2.90	9.88	11.38	10.80
Lumber Production (bd. ft.)m	Nov. 6	588	583	672	632
Paperboard New Orders (st) t	Nov. 6	172	144	158	165
Soft Coal Stks., End Mo. (st) m	Sept.	72.9	75.3	87.3	61.8
Lumber Stks. (bd. ft.) b	Sept.	7.6	7.6	10.0	12.6
Hide & Leather Stks. (hides) m	Sept.	9.5	10.0	12.6	14.0

PRESENT POSITION AND OUTLOOK

ment recommends that: (1)—High tariffs and quota restrictions should be removed so far as practicable; (2)—American capital should be invested abroad directly, in partnership with native capital; (3)—Wartime controls in the U. S. should be continued until the supply of goods renders them unnecessary.

* * *

A thorough job of housecleaning under measure (1) would permit imports and exports to balance naturally without resort to the dangerous artifact of a **unilateral flow of capital** which, experience proves, can have disastrous consequences—economic and political.

* * *

But removal of artificial restrictions upon foreign trade would have to be gradual; since wages and commodity prices are higher here, and have risen faster, than in most other industrialized countries. In England, for example, **factory wages** now average less than half the hourly rate in America. The alternative would be a renewal of **competitive devaluation of currencies.**

* * *

Wage boost recently awarded to coal miners will add an estimated average of 30 cents a ton to **cost of coal.**

ag—Agriculture Dep't. b—Billions. ca—Chain Store Age, 1929-31—100. cb—Census Bureau. cd—Commerce Dep't. cd2—Commerce Dep't., Jan., 1939—100. cd3—Commerce Dep't., 1939—100. cdlb—Commerce Dep't. index (1935-9—100) using Labor Bureau & other data. en—Engineering News-Record. 1—Seasonally adjusted index, 1923-5—100. lb—Labor Bureau. lb2—Labor Bureau, 1926—100. lb3—Labor Bureau, 1935-9—100. lb4—Labor Bureau, 1939—100. m—Millions. mpt—At Mills, Publishers & in Transit. np—Without compensation for population growth. pc—Per capita basis. rb—Federal Reserve Board. rb2—Federal Reserve Board, adjusted index, end of Mo., 1923-5—100. rb3—Federal Reserve Board adjusted index, 1935-9—100. st—Short tons. t—Thousands. tf—Treasury & R. F. C.

THE MAGAZINE OF WALL STREET COMMON STOCK INDEX

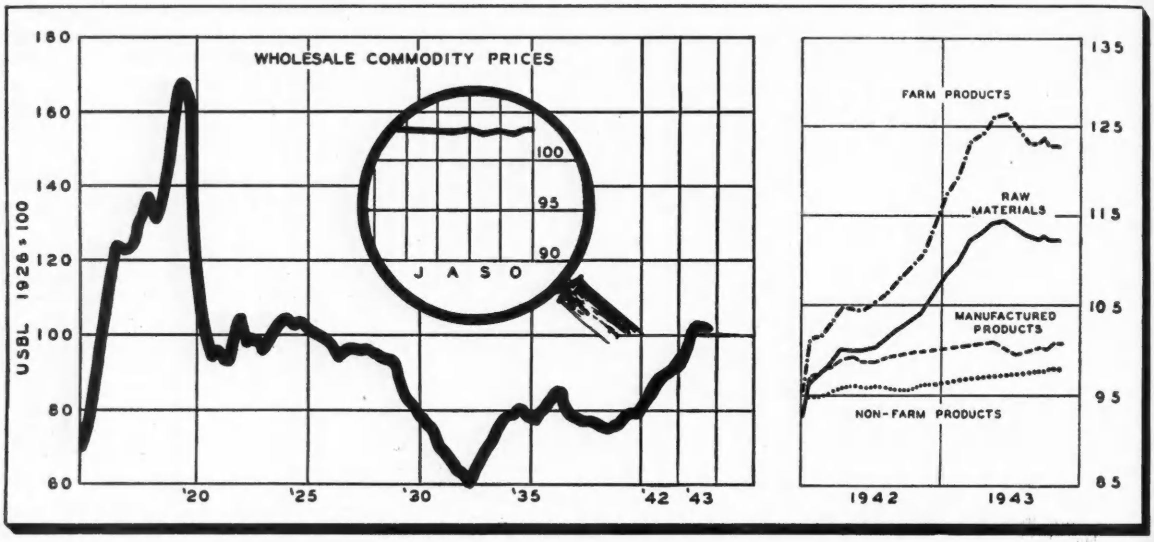
No. of Issues (1925 Close—100)	1943 Indexes High	Low	Nov. 13	Nov. 20
273 COMBINED AVERAGE	89.9	54.5	73.4	76.1
3 Agricultural Implements	156.5	105.2	134.1	135.2
9 Aircraft (1927 Cl.—100)	179.2	118.6	118.6e	122.4
5 Air Lines (1934 Cl.—100)	560.3	363.1	427.9	446.3
5 Amusement	78.4	40.2	60.2	63.5
12 Automobile Accessories	142.1	83.0	107.0	110.2
13 Automobiles	21.0	9.7	15.5	15.4
3 Baking (1926 Cl.—100)	15.0	8.5	12.4	12.5
3 Business Machines	197.1	129.4	161.4	165.7
2 Bus Lines (1926 Cl.—100)	96.6	54.9	77.1	86.7
5 Chemicals	194.7	153.5	168.6	170.1
13 Construction	38.0	23.3	31.0	31.6
5 Containers	240.4	177.1	217.7	216.0
8 Copper & Brass	82.5	63.1	63.1a	63.6
2 Dairy Products	40.5	29.7	37.5	38.2
6 Department Stores	32.2	15.4	26.7	27.8
5 Drugs & Toilet Articles	89.6	50.9	76.7	79.8
2 Finance Companies	237.3	152.6	208.5	210.4
6 Food Brands	131.9	85.5	117.5	118.7
2 Food Stores	47.8	37.7	45.5	45.3
4 Furniture	63.5	35.0	53.7	55.1
3 Gold Mining	1000.7	610.3	819.3	852.1
6 Investment Trusts	39.1	22.7	31.2	32.3

(Nov. 14, 1936 Cl.—100)	High	Low	Nov. 13	Nov. 20
100 HIGH PRICED STOCKS	68.01	52.87	60.24	61.16
100 LOW PRICED STOCKS	88.00	43.61	67.29	70.82
3 Liquor (1932 Cl.—100)	302.5	197.1	282.9	285.3
8 Machinery	111.6	82.6	97.7	101.0
2 Mail Order	91.8	61.8	80.8	83.0
3 Meat Packing	62.0	34.9	49.1	52.8
10 Metals, non-Ferrous	155.7	106.8	119.9	121.0
3 Paper	13.5	9.0	11.9	12.4
21 Petroleum	141.4	86.9	116.9	119.9
18 Public Utilities	58.1	23.2	43.6	48.1
3 Radio (1927 Cl.—100)	26.1	12.1	19.1	20.1
7 Railroad Equipment	57.4	32.1	44.1	45.9
17 Railroads	18.6	9.8	13.1	13.8
2 Shipbuilding	106.1	66.5	68.5	66.5d
3 Soft Drinks	37.1	197.8	296.3	299.2
12 Steel & Iron	79.3	57.6	64.7	67.2
2 Sugar	47.2	32.2	36.8	40.6
2 Sulphur	196.2	165.5	165.8	165.5a
3 Telephone & Telegraph	114.4	67.0	101.4	107.4
3 Textiles	56.7	33.7	44.3	46.6
3 Tires & Rubber	28.1	16.5	23.3	24.5
4 Tobacco	67.7	52.2	57.8	58.2
2 Variety Stores	233.8	182.4	214.3	214.6
20 Unclassified (1942 Cl.—100)	190.0	100.0	143.3	151.3

New LOWS since: a—1942; d—1939; e—1938.

Trend of Commodities

Though December wheat rose to a new 14-year high in response to unfavorable weather in the West and Southwest, the Labor Bureau's average of 7 domestic farm products shows a 1% recession since our last issue. Commodity markets are relatively firmer than the stock market; but both are in a reactionary phase stemming from a belief that inflationary forces are losing momentum, despite the highly vocal efforts of labor and the farm bloc to reach yet higher ground before the inevitable retreat. Domestic stocks of wool are nearing the billion pound mark; substantial inventories are becoming available for industrial purposes from foreign sources; while military procurement of woolen goods is slowing down. It is thus scarcely surprising that the WPB is considering proposals to end wool use curbs. U. S. stocks of cotton at the end of October were only a trifle lower than a year ago; but mill takings are off about 15%. The Agriculture Department predicts that post-war need for cotton will be large; but actual purchases substantially below supply. "Europe will be plagued not only by low purchasing power but by textile mills smashed by retreating Nazis if not by Allied bombs." If UNRRA's quota of 1% of the national income for foreign food relief is not exceeded there will be no post-war food shortage in the U. S.

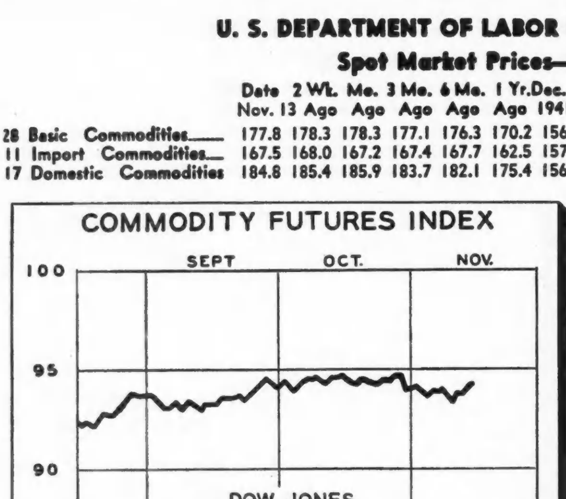


U. S. DEPARTMENT OF LABOR INDEX OF 28 BASIC COMMODITIES

Spot Market Prices—August, 1939, equals 100

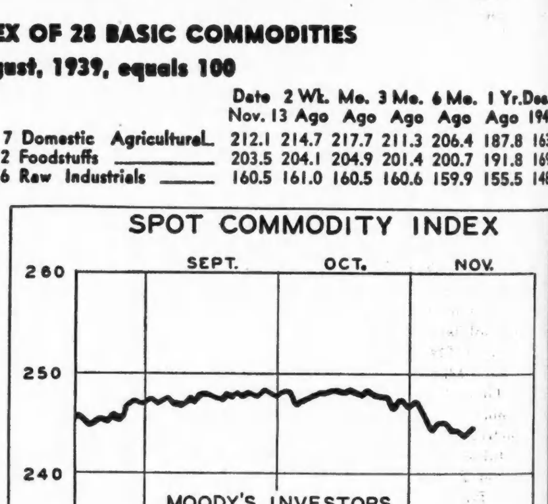
	Date Nov. 13	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
28 Basic Commodities	177.8	178.3	178.3	177.1	176.3	170.2	156.9
11 Import Commodities	167.5	168.0	167.2	167.4	167.7	162.5	157.5
17 Domestic Commodities	184.8	185.4	185.9	183.7	182.1	175.4	156.6

	Date Nov. 13	2 Wk. Ago	Mo. Ago	3 Mo. Ago	6 Mo. Ago	1 Yr. Ago	Dec. 6 1941
7 Domestic Agricultural	212.1	214.7	217.7	211.3	206.4	187.8	163.[illegible]
12 Foodstuffs	203.5	204.1	204.9	201.4	200.7	191.8	169.[illegible]
16 Raw Industrials	160.5	161.0	160.5	160.6	159.9	155.5	148.[illegible]



Average 1924-26 equal 100

	1943	1942	1941	1940	1939	1938	1937
High	94.56	88.88	84.60	64.07	64.67	54.95	82.44
Low	88.45	83.61	55.45	48.74	46.50	45.03	52.03



15 Commodities, December 31, 1931, equal 100

Copyright by Moody's Investor Service

	1943	1942	1941	1940	1939	1938	193[illegible]
High	249.2	239.9	219.9	171.8	172.3	152.9	228.[illegible]
Low	240.3	220.0	171.6	149.3	138.4	130.1	144.[illegible]

The Story Behind the Liquor Boom

(*Continued from page* 186)

stockholders would gain only slightly from the ownership of the whiskey.

However, by selling the whiskey to the stockholders, not only does the company not have to pay any income tax on the transaction, but the stockholders as well are exempted from any income taxation, until such time as the acquired whiskey is sold. Even at that time the security holder will be subject only to capital gains taxes on the profits. If held over six months, the capital gains tax would be only 25 percent. The increased value of the stock under such an arrangement becomes very apparent.

This phenomenon of dividends in kind and merchandise purchase rights, while not novel, certainly is very unusual and spectacular. That they are geared to today's whiskey shortage adds great allure to the declarations and rights and attracts a number of security buyers such as liquor retailers, wholesalers, and other independent distillers who would not under normal circumstances, purchase any of these equity securities. This added buying pressure has been the single most important factor in the sharp upward movement in the prices of a number of company securities.

Clearly, then, the current demand for whiskey company stocks must be regarded purely as a wartime occurrence resulting from conditions within the whiskey industry which could not have been foreseen even as recently as one year ago. The fact that this "boomlet" has developed in the face of a general market price decline is all the more remarkable.

On the other hand, it is proper to sound a note of caution as regards speculation in the shares of the large companies that aim to stay in the liquor business for the duration and thereafter—National Distillers, Schenley, Distillers - Seagram, Hiram Walker, Gooderham & Worts. They will pay no liquidating bonanzas to shareholders, and their prospects certainly are not devoid of uncertainties. Since the ratio of inventories to sales has become such a key factor for the future, it may be noted that in this respect Schenley appears to be in the best position. However, there are compensating points of strength in the position of the others, notably National Distillers—and many opportunities for adjustment and expansion, particularly as represented by plans for aggressive diversification in non-whiskey and even non-beverage lines.

Secondary Stocks Versus Leaders

(*Continued from page* 191)

is selling well under its book value but most of them are at prices only a little above it and only three are above double the book value figures, and they only a bit above double it. In the matter of book values, earnings have long taken a more important place in the market with the leading stocks, but have often been given more attention among the secondary issues by investors.

The relationship of market price to net current assets is even more pronouncedly overlooked in the market leaders. One of them is at a price about 9 times the net current assets per share, another is 7½ times and a third is 5½ times it. Two of them are at prices which are below the net current assets per share, again being the two steel stocks. In the secondary group, the highest ratio in this comparison is about 3½ times the net current assets per share in the recent market price for the stock, with two in that ratio, but the others are at prices nearer to the current asset worth, and two of them are below it.

A conclusion which can be drawn from a consideration of the above facts and the figures in the table is that leaders in the stock market may often be out of line with their relative statistical worth when compared with many secondary stocks offering greater values if selected with care.

Remarkable Advances in Glass

(*Continued from page* 195)

leading maker of plate and safety glass and largest producer of window glass was hard hit by the suspension of automobile production and restrictions on residential building but with the return of peace both these fields should offer exceptional opportunities. The automobile industry normally accounts for 60% of the company's sales and prior to the war, it had a contract to supply the glass for all General Motors cars. Through ownership of the Plascon Co., the company has an important stake in the plastics industry.

To offset the loss of normal business, plant facilities have been adapted to the manufacture of special glass, notably optical and precision glass, and other materials for war purposes. Thus wartime earnings, after an initial sharp dive, recovered materially, with net for the first nine months of this year amounting to $1.10 versus 43c last year. One of the company's most important wartime undertakings is the fabrication and assembly of airplane enclosures such as windshields, cabins, canopies, gunners' turrets and bomber noses, also bullet-resisting glass and the fabrication of Plexiglass and plastics parts under an agreement with the firm of Rohm and Haas Co.

One of its most promising peace-time developments is the aforementioned Thermopane, a multiple-glazed insulating unit of glass and metal construction which after the war should find vast application in building construction. The company's war-time accomplishments mean that it will be in a position to supply a wide range of shapes and types of glass for a great variety of products when they are again being made for the civilian market. Prior to the war, it was successful in establishing glass as a superior material in such consumer products as refrigerators, stoves and other household equipment. New opportunities will lie in this direction and the company is planning aggressive promotion in these and other fields, including the post-war aviation market, housing and commercial construction.

While the war initially proved a serious blow to the flat glass makers, it was a windfall for the glass container industry which fell heir to a substantial volume of container business diverted from the can manufacturers because of priorities and the shortage of tin. Ever since the start of the war, Owens-Illinois Glass Co., leader in the field, has been enjoying peak sales and earnings with 1942 net amounting to $3.46 per share against $3.40 in 1941, an excellent showing considering the heavy war-time taxes. The company's strong basic position and promising long-term outlook impart the stock particular appeal. Through its interest in Owens-Corning Fiberglas Corporation, the company participates in the future and development of glass fibre the promising prospects of which were described before. Research, development and engineering are occupying an increasingly important position in the company's current activities and particularly in connection with its ambitious program for the future. In 1941, research expenditures came to no less than $1.27 million.

The management fully expects that the industry will be able to retain a goodly part of the war-won container business and is bending every effort in that direction. Recent retirement of $2.50 million of debentures leave the company completely free of funded debt which in 1937 amounted to $15 million. The fiberglass subsidiary has developed, among other things, a new fire-proof structural insulating material and is making other materials which have found wide application in numerous industries. In its own field, Owens-Illinois pioneered in the development of automatic bottle-blowing machinery and related equipment along with the manufacture and commercial adaptation of glass building blocks and glass wool insulation. However, main activity is still the manufacture of bottles, its output of this and other glass containers representing over 35% of total domestic production.

From an investment viewpoint, it must be noted that most glass equities today are selling at rather high price-earnings ratios, as shown on the accompanying table, with dividend yields relatively small, which indicates that future prospects are fairly well discounted at present price levels. Those interested in stability of earnings and dividends, however, may find them well worth attention whenever yields should widen on market setbacks.

The Growth Promise in Canada Dry

(*Continued from page* 196)

of the preferred stock, previously filed with the SEC, and postponed the sale due to general conditions.

The rapid increase in the company's business, which began in 1935, appears due not only to improved economic conditions but to policies developed by the new management installed in 1934. Prices were cut and the large bottle introduced. In the eight years following 1934, sale of carbonated beverages increased over 400 per cent, and net dollar sales 158 per cent. The number of soft drink plants was increased from nine to twenty-two (including four in Canada) with a total daily bottling capacity of 1,235,000. Over three-quarters of the U. S. capacity is in the east (New York, Connecticut, Massachusetts and Pennsylvania) while remaining plants are located in Illinois, California, Georgia, North Carolina, Texas and Missouri. The introduction of a five-cent bottle of ginger ale in 1941, with the "Handi-Pak" six-bottle container, helped to stimulate sales.

While ginger ale remains the leading line of products, the Company has done very well with its cola drink (Spur) introduced in 1940 into an apparently over-crowded field and now ranking fourth among the leaders. Following the example of Coca Cola, over 159 independent bottlers have been licensed. Canada Dry sparkling water ("pin-point carbonation") enjoys the largest sales of any product in its field.

Direct-to-dealer sales, in place of the previous policy of distribu-

tion through jobbers, has contributed largely to the rapid growth of sales. Moreover, by reducing prices the company was able to extend its retail markets to include (in addition to grocery and delicatessen stores) factories, gas stations, candy stores, amusement parks, etc.

Canada Dry's outlook for next year appears favorable. The increase in the sugar quota from 70 per cent to 80 per cent of 1941 use will permit more production for civilians. The scarcity of crowns (bottle caps) is being met by greater use of large-size bottles, and reuse of crowns. Bottle purchases are being restricted to 65 per cent of the 1942 rate but sales to the armed forces, being quota-free, are maintaining sales at a high level.

The "hard liquor" division is affected by the same difficulties experienced by other companies. However, imports of Scotch have been well maintained and profit margins continue excellent.

The postwar outlook will depend principally on consumer purchasing power, which is expected to remain excellent following temporary readjustment to a peace economy. As indicated by the location of its plants (largely in the east) the company has large potential growth through extension of domestic markets. Establishment of new plants in the west and south should permit further savings in freight costs. Sale of syrups to the drug store market is an important field for development. There should also be good possibilities in the foreign field when international trade is reopened.

Lifting of restrictions on bottle crowns and sugar, together with lessened transportation difficulties, should reduce costs, though on the other hand promotion expense may increase as civilian sales are substituted for army and navy demands.

Canada Dry sales, despite their rapid increase in recent years, are still relatively very small as compared with U. S. expenditures for liquors and soft drinks. With continued sound management, extension of markets and introduction of new products, further long-term growth seems assured.

With net income before taxes over twelve times as large in 1942 as in 1936, the present price of the stock (about the same as the average price level of 1936) does not reflect the important gains accomplished in the intervening six years. Last year the amount paid in federal and Canadian income and excess profits taxes was about \$2.33 a share, so that obviously any postwar reduction of the tax burden would greatly benefit stockholders. Assuming that the latest quarterly payment of 25 cents is continued, the resulting yield of 4.66% reflects a fair average common stock yield, while the long-continued plowing back of earnings should eventually bring rewards to stockholders in more liberal payments.

The Rubber Industry After the War

(*Continued from page* 189)
par value common stock. The preferred is convertible on a basis of one share of it for ¾ share of common (for common at $75 a share) until October 1, 1946. The call price on the preferred is 110 until October 1, 1946, then at 105. In past bull markets, Goodyear has not had as good swings as Goodrich, nor nearly as good as U. S. Rubber. If earnings in 1943 and in the future, come up to expectations, there may be a basis for a decided improvement in its market position in some future strong market. In the first half of 1943, Goodyear earned $4.82 a share and the second half year is expected to be about as good.

Firestone Tire & Rubber common stock has many market followers, but the stock has not had the market action nor the attention equal to the other three. It is, none-the-less, in a very strong statistical position. For the ten years through 1942, it had a better average net per share than the other three, and it was one of the first to pull out of the 1930-1933 depression, with net earnings in 1934 and good results in every year thereafter. The company operates in a number of foreign countries and has developed business in the past few years in several parts of South America. This company, differing from the other leading ones, did not have to make large write-offs because of the loss of its normal supply of natural rubber, as it owns large plantations in Liberia, Africa, which produced a considerable amount of rubber in the past two years. Firestone did make a small write-off of some properties in the Far East which were taken over by the Japanese. Several new areas for growing rubber trees have been under active development by this company in various parts of Central America. Besides these activities, it has been a leader in recovering used rubber and it developed a nationwide recapping service for worn tires.

Firestone was one of the first to get into active production of synthetic rubber in the Winter of 1942. The company did not show as large net per share in the first half of 1943 as the other three named above, with $2.60 a share on the common, but it was in line with the others in the two preceding years, reporting $7.80 a share before reserves and $4.37 after them in 1941, and in 1942 had $6.59 a share net on the common before special reserves and $5.04 a share after their deduction. Firestone has $48,000,000 funded debt, 454,129 shares of $100 par value 6% cumulative preferred and 1,930,811 shares of no par value common. The preferred is callable at 105. Dividends on the common have been paid for many years without omission. For several years, the rate has been $1.50 a share. The financial position has been strong, with working capital above $92,000,000. The book value of Firestone common is second in ranking to Goodrich.

Lee Rubber & Tire common is the best of the secondary companies, with General Tire & Rubber and Dayton Rubber Manufacturing among others of the smaller companies with a good position and market possibilities for the long pull. The statistical position of these three is shown in table II.

Lee Rubber had some net earnings in every year from 1932 on, and in recent years has had a high rate, with $2.50 a share for the first half of 1943, $5.39 for 1942, $6.19 for 1941, all being fiscal period, with the year ending October 31. With the 1943 report partly estimated, for the past five years, average net a year has been in excess of $5 a share. Dividends have been on a liberal scale, with $2.25 to $2.50 a share a year starting in 1938, also some small distributions in new stock. The working capital and equity per share figures are also high in relation to recent prices for the stock.

This stock appears to have been somewhat behind its true statistical worth in past bull markets, for the best figure reached in 1937 was 27⅞ and it made a higher figure than that in several succeeding years, while in 1943, it made a record high at 39⅛. Even that figure does not seem to fully cover its worth on earning power, book value and possible future growth. Lee specializes in replacement business, and that is likely to be a very active one after the war because of the huge numbers of cars and trucks which have not been able to get new tires during the past eighteen months. The company also has a considerable amount of business in mechanical and industrial rubber goods. It has no bonds and only one class of stock of which 241,509 shares of $5 par value are outstanding.

Dayton Rubber Manufacturing Co. was one of the pioneers in making modern types of tires, making the first low-pressure tire about 1923. It still makes tires and tubes but has developed a number of other activities for which it has obtained a growing demand, including transmission belts, textile machinery parts, printers rollers and a number of other industrial products. The company pioneered in synthetic rubber and produced the first 100%-synthetic tire in 1934. Some of its regular products long before the war started were made entirely of synthetic rubber. Dayton has had a good earnings record, showing better than $2.00 a share every year starting in 1936. The company has no bonds, with about $1,000,000 in bank loans. There are two classes of stock, with 46,318 shares of $35 par $2 preference stock and 176,839 shares of $1 par common. The preference stock is callable at $35 a share. As of October 31, 1942, the current assets of the company were $3,805,233 in excess of current liabilities.

General Tire & Rubber Co. is principally a producer of tires and tubes, but has some business in mechanical goods. The company has been mostly interested in the replacement field, selling through dealers and through Pure Oil Co. service stations. Among other activities is the ownership of the Yankee Network, a radio broadcasting chain. Earnings have been above $2 a share each

year with two exceptions in the past eight years. In the six months to May 31, 1943, net was $2.17 a share, with prospects that the total for the year to November 30th will surpass the best figures of any recent years. The company has no bank loans or funded debt. The 21,963 shares of 6% preferred now outstanding are to be called for redemption and a new issue of 75,000 shares of $100 par value preferred is to be sold to the public. The common consists of 527,147 shares of $5 par value. At the end of the last fiscal year, General Tire had strong financial position, reporting $14,979,110 current assets, $4,935,402 current liabilities and $10,043,808 working capital.

To sum up: U. S. Rubber appears to be the most attractive stock among the Big Four, even though its statistical edge is not a wide one. Its superior market prestige—due largely to the du Pont affiliation—probably is lasting. Among the secondary companies, Lee Rubber is most attractive. Purchases should be timed in accordance with the A. T. Miller market analyses in each issue of this publication.

Profit Outlook for Truck Makers

(*Continued from page* 193)

ings, and yielding about 7%, the equity looks undervalued in terms of near-term and longer range earnings potentialities. Renegotiation is a factor which may modify 1942 results but any possible repayments to the Government are more than covered by reserves.

Diamond T Motor Car at 12 sells about 2.5 times earnings which last year were $4.85 per share and this year may approximate $5. Sales are expected to show an increase of some 30%. Past earnings were good and dividends fair, with last year's disbursement of $1 affording a yield of 8%. One of the smaller truck makers, the company in recent years has concentrated primarily on a line of lighter vehicles ranging from ¾- to 5-ton capacity. Unlike most concerns in the industry, it does not manufacture its own parts. The company has always leaned rather heavily on the export market but war orders more than offset the loss of foreign business in which a strong revival is expected after the war. Doing strictly assembly work, a high degree of flexibility in operations is maintained, permitting ready adjustment of expenses in slack periods. This resulted in greater earnings stibility than shown by most other units of the industry. Finances are fully adequate though working capital at present is somewhat restricted due to heavy requirements of funds to handle war contracts and expansion.

Reo Motors in the recent past was a minor factor in the truck field, despite earlier popularity. Reorganization in 1939 has resulted in a somewhat improved operating structure and war-time earnings were relatively high with $2.99 per share netted last year. For the first nine months this year, earnings came to $2.94 versus $1.74 in the like period last year. Profitable operations bettered working capital position progressively and the company stands a good chance to emerge from the war period considerably strengthened financially as well as regards its trade position. In the long run, however, intensified competition from better entrenched manufacturers must be reckoned with. Meanwhile lack of a carryover tax credit is impeding earnings growth, yet total 1943 net should approach $4 per share. Selling at about 9, the price-earnings ratio of 2.5 to 1 reflects the highly speculative character of the equity since Reo has yet to establish earning power under normal conditions.

Federal Motor Truck is another speculative issue, selling at about 4 times earnings at the current price of 4⅝, based on last year's net of $1.09 per share, and at little more than twice expected 1943 earnings of about $2. Though a small maker of light, medium and heavy duty trucks, the company should benefit from the new truck program, on an assembly basis; at present it holds sizable war contracts. A new management was installed in 1940 and

a thorough reorganization effected which has been instrumental in bringing about greater operating efficiency. Capitalization is small and finances since 1941 improved considerably as the result of profitable operations after a period of deficits. The post-war outlook however is not assured and peacetime earning power has yet to be proved.

Varying Reconversion Problems of the Leading Industries

(*Continued from page* 171)

ment work undertaken is concentrated in the companies' machine shops or Government-owned plants and container making facilities are working at capacity on Army orders. Technical changes will be minimal.

Conversion time will vary in the electrical products industry. Transition is likely to be short where war output is closely identical with normal products; this applies especially to heavy electrical equipment. The change-over will be more difficult in some household appliance lines where plant facilities have been completely dismantled. Resumption of manufacture of refrigerators may take six months, radios five months or less. Partial resumption is already beginning in refrigerators and vacuum cleaners, thus the time may be cut. Of the latter two, some supplies are expected to appear on the market by the middle of next year; by 1945 they should again be fairly abundant, according to present plans. The McGraw Electric Co. feels that reconversion will be "quite easy" since many of the company's war products are standard lines. Zenith Radio expects to resume within 60 days but is less definite about the time it takes for full production. In air-conditioning, reconversion will be slower, with 6 months probable a reasonable estimate though it may be pared by some. In the case of the two leaders of the electrical industry, General Electric and Westinghouse Electric, an average of 3 months should be a good over-all estimate considering the great variety of their output. Some departments, however, may lag behind.

The transitional period for the household furnishings industries will likewise vary. Stove makers already resumed limited production and relaxation of restrictions is reported in other sectors so that complete reconversion, once permitted, should be fairly rapid. Makers of soft pile floor coverings may be tied up somewhat longer, due to drastic conversion problems, but linoleum manufacturers should hit their stride within 60 days or less.

Transition in the farm equipment industry is also underway; the industry bids fair to become the first one completely reconverted before the war ends. Late in spring, it was permitted to return to the manufacture of 80% of 1940 output of farm machinery but the program is being impeded by the slow flow of needed materials. War work of some companies is still considerable but reconversion should now quicken with the stepped-up release of materials. Such concerns as International Harvester and Oliver Farm Equipment Co. expect little trouble in changing back since they are already heavy in civilian production.

The machine tool industry is up against major problems, yet the transitional period in some instances should be no more than 4 to 6 months. Generally, reconversion speed often depends on the time individual companies require in taking up new lines as many now contemplate. The industry was the first to convert to war business; it was the first faced with reconversion. Main problem is existence of a huge inventory of war-time tools whereof some 90% are believed adaptable to peace-time manufacture. The bulk (some estimate 75%) are general purpose standard machines. The remainder are special purpose units and of those, half or more can readily be adapted to peacetime production. Another nightmare is the fact that 50% or more of the machine tools produced during the war are owned by the Government. This means that Government decisions will hang over future plans of the industry to find users for the existing equipment and clear the deck for the production and sale of new tools. As yet, Government policy has not been decided but indications are that much of the machinery surplus will eventually be exported for reconstruction abroad. Meanwhile many machine tool companies have taken

up new lines; others still face this task and their success will determine the time it will take eventually to return to normal if vastly reduced peace-time production. Renegotiation of war contracts remains a major uncertainty affecting the status of many.

In the metal fabricating field, important reconversion problems impend but difficulties should not be unduly great. Capacity, greatly expanded during the war, will have to be scaled down drastically. Renegotiation is also overhanging most companies.

In the office equipment industry, transition will be slow, reflecting the completeness of conversion to war work necessitating dismantling of most productive facilities. Probably complete retooling is required and initially it may be difficult to assemble trained workers in adequate numbers. The outlook may be modified if partial reconversion is undertaken soon; it is understood some typewriter production may shortly be authorized. Since large quantities of second-hand office machines will be available after the war, no particular pinch in supplies will be felt by consumers despite the prospective long pause before resumption of normal output.

In the railroad equipment industry, transition is well underway reflecting heavy war-time need for rolling stock and locomotives. Baldwin Locomotive Co. expects to be entirely out of tank production early next year, concentrating on large Government orders for locomotives. The outlook is similar for American Locomotive Co. and others, and reconversion should continue apace. Pullman-Standard expects very few difficulties in reconverting and even now is heavily engaged in the manufacture of rolling stock.

Problems of the steel industry are limited largely to a change-back to sheet and light strip production on mills which have been converted to heavy strip and plate output. Also, extensive furnace repair will be required for which there was little time under pressure of war work. Some obsolescent facilities will no doubt be closed down but these are more than compensated for by new capacity erected during the war. Most of the reconversion problems can probably be coped with without any appreciable interruption of production. The time required should be nominal.

Ship building faces drastic contraction of output rather than reconversion. The latter may apply only in so far as new lines are contemplated, and then probably entirely new facilities will be required. The problems of the shipbuilding industry are well recognized and need no particular amplification. Government policy will play an important part in shaping the postwar outlook.

In textiles, reconversion will be rapid though change-over's and possible replacement of worn-out looms may consume some time. In most cases, transition will be short, in some no problem at all. 60 days should be the maximum except where special problems arise.

Similarly, the change-over will be short in the tire and rubber industry, a matter of weeks at most and largely conditioned by the shift in emphasis from military to civilian tires. In mechanical rubber goods divisions, occasional problems may arise but transition on the whole should be rapid.

10 Special Selections

(*Continued from page 183*)

of a quarter or half of a point in purchase price looms big in calculating the longer term profit possibilities.

TRI-CONTINENTAL CORPORATION

This situation offers broad speculative possibilities in both the common shares and the warrants, the former listed on the New York Stock Exchange, the latter on the Curb Exchange. Tri-Continental has large holdings in other investment companies and also a general portfolio with a long list of diversified securities. The common has ranged between a high of 12 in 1936, which approximated its asset value at the close of that year, and a low of 5/8 in 1941 at the end of which year asset value, after allowing for the preferred, was only 7 cents per share. Range this year has been 4 3/8—1 7/8, and current price is 3. The perpetual warrants are for purchase of 1.22 shares of common at $18.46. It would take an extreme bull market to put actual value behind them—but extreme bull markets are not impossible and, where a permanent speculative option is concerned, hope

springs eternal: as witness the fact that these warrants sold as high as 5⅛ in 1936. (And subsequently as low as 1/128 in 1941. Range this year has been between 1¼ and 7/32, with current quotation ¾.

UNITED CORPORATION

The common stock of this once high-flying utility trust sold at a high of 75½ in 1929—and down to 3/16 of 1 point in 1941. It will never approach the 1929 dream again, but there is a possibility that a more conservative political environment in the coming peace era will greatly improve utility stock values. United common has ranged on the N. Y. Stock Exchange betwen 2¼ and 11/32 this year and is now at 1. It sold as high as 14½ in 1933, 8⅞ in 1934, 7¾ in 1935, 9¼ in 1936 and 8½ in 1937. The warrants on the Curb Exchange, now at 1/16 of a point, sold as high as 2 to 2¾ in 1936-1937; and as high as 6¼ in 1933.

SELECTED INDUSTRIES

This trust is affiliated with Tri-Continental Corporation, which has large holdings of its preferred and common shares. Assets are preponderantly represented by a wide diversity of marketable securities, without marked specialization. Asset value of the common is nil. In fact, the general market level would almost have to double to put it in the asset column. It did not have asset value in 1937 or 1936—yet sold as high as 4⅝. (And subsequently as low as 1/16 in 1941 and 1942.) The record proves that such options never go to zero, and always rise sharply in a bull movement. After all, it is always *possible* that some day the Dow-Jones industrial average may rise to 200 to 250, and the option may be held at small cost. Also at small risk if bought low.

As I See It

(*Continued from page* 165)

dress before Congress in which he assured us the machinery set up there would speed Victory and bring a just Peace; that the Four-Nation declaration which was signed at the conference, contained pledges, which, put into effect, would entirely do away with the need "for spheres of influence, for alliances, for balance of power, or any other special arrangements through which in the unhappy past the nations strove to safeguard their security or promote their interests."

It will be the task of the three great leaders, Roosevelt, Churchill and Stalin, to eliminate the hazard inherent in the situation and to carry on the program initiated by the Moscow conference. The success of any plan, however, depends as always, on the good-will and sincerity of the participants. The situation, therefore, calls for cooperation by all those who will benefit from the work at Moscow—the sooner the better.

The tasks set for the conference are many and will undoubtedly include plans for action in the Pacific, where events are fast moving to a climax. The most important battles of this War may take place in the Far East, where the situation calls for a quick, decisive blow.

Because of the almost unbearable suffering endured by humanity everywhere, and the great destruction, the War cannot be prolonged without the most serious consequences. In recognition of this, preparations to conclude the struggle have been moving at an accelerated pace for some time. At long last, we are entering a stage where global War will be fought in reality, and on a prodigious scale. Thus, the quickening of events is calling for an earlier meeting between the three great leaders than was contemplated, with the world waiting anxiously on the outcome.

For Profit and Income

(*Continued from page* 199)

latter rate is well within present earning power which, on a consolidated basis, exceeds $4.

Greyhound Corporation

Greyhound is reported to be planning $15,000,000 in new capital financing, the bulk of the funds to be held for terminal and equipment expansion after the war. Company and its subsidiaries and affiliates are "tops" by a wide margin in the bus service business. Greyhound has been a "growth" situation in the past and no doubt will be in future, though it is bothered now by such matters as a 35 mile an hour speed limitation, an uncertain tire supply outlook for the next year and inability to expand number of buses. As in air lines, however, present larger number of passengers per trip is proving profitable. Parent company earnings figure to be almost $2 a share this year, against $1.74 last year; while earnings on a consolidated basis are close to $4 a share, against $2.96 in 1942; $2.28 in 1941; and $1.70 in 1940. After the war, lighter weight buses, improved motors and better fuels promise lower cost operation. Greyhound shares act relatively well in the market, having so far reacted only from high of 21 to 18⅜, compared with year's low of 14⅛. The $1.25 dividend yields about 6.8 per cent at present price.

Farm Equipments

The farm equipment stocks continue to perform somewhat better than the market. Deere, Case, Oliver and Allis-Chalmers have shown for the year to date a better market action than International Harvester. Thisis another example of something we have talked about before: namely, that in a bull market the "secondary" stocks nearly always rise more than the "leaders."

The Record Breaking Inflation

(*Continued from page 177*)

outlays may be expected to reduce heavily whatever inflationary surplus accumulation exists.

If one additionally considers the augmented working capital needs to be expected for sustaining high post-war operations, the conclusion appears justified that with proper management, the inflationary problem as a whole should at least be governable, in others words that basic conditions do not render run-away inflation inevitable. This does not preclude the probability, even desirability of a mild price inflation after the war. Its end will set free powerful influences resulting in a substantial, if temporary, reduction of national income and notably payrolls—even if there is no change in wage rates. During this transitional period, stability may well be promoted by a moderate rise in prices and wages to prevent too severe a drop in overall purchasing power. Properly controlled such a course would be distinctly beneficial; if not, the road to inflation would become wide open as business and individuals alike would rush to convert funds into goods.

The latter process, even when undertaken on an orderly basis in line with normal requirements, will depend in large degree on relations between Government and business since nearly half of the accumulations are held by the latter. But also it will depend on the outlook for individual employment and security as far as private spending is concerned. These will be major factors in determining the relative volatility of accumulated funds, business and private; that is, the amount that will be spent immediately after the war. The latter, in turn, will govern the degree of inflationary pressure we are likely to experience.

A further indication tending to minimize the inflationary peril has recently come from another, and I may say, very unexpected quarter. I refer to the current favorable budgetary trend and its likely effect on future financing and tax policy by the Government. Treasury receipts currently are running at an annual rate of some $3 billion above budget estimates and expenditures some $15 billion below, in other words we are collecting considerably more in taxes than we expected while spending a great deal less. In the light of this, according to an analysis by the National City Bank of New York, the indicated deficit for the year is reduced from the budget figure of $66 billion to $48 billion whereof the portion requiring financing during the eight months November through June is $31 billion. As against the latter, the Treasury has cash balances of some $19 billion. By drawing them down to, say, $9 billion, there would be provided $10 billion of the $31 billion required, leaving only $21 billion to be taken care of.

Allowing for regular sales of war savings bonds at the rate of some $800 million monthly or $7 billion for the eight months period until the end of the fiscal year, this $21 billion would be further cut to $14 billion. Social security taxes and other Government trust fund investments should account for another $2 billion, bringing the remainder requiring financing down to around $12 billion, or a considerably smaller sum than was raised in the Third War Loan drive.

This is significant for several reasons. It means that if present trends continue, a Fourth War Loan some time early next year should be able to take care of Treasury requirements for the balance of this fiscal year without further dependence upon commercial bank borrowing with its inflationary creation of new deposits. Even should required financing come as high as $15 billion, this would still well be within the sum raised from non-commercial banking investors in the Third War Loan. An optimum possibility, after the end of the European phase of the war, is that Treasury requirements beyond the current fiscal year may well be financed out of taxes and savings with no actual need of aditional offerings of Government securities to the banks.

What lessons can the investor draw from this new approach to the much-discussed inflationary gap, the illustration that it is apt to be a far less perilous factor than once thought? Primarily, I would think, it is that buying equities purely on premise of their anti-inflation characteristics should lose a good deal of its validity, other things being equal. For as the inflationary threat recedes, traditional hedges stand to lose a good deal of their attraction, often to the detriment of those committed to them. The market, it appears, has been sensing this for some time; inflation hedge quality alone has been progressively less of a factor in guiding recent investment policy. While the danger of inflation is by no means past, one can state with considerable assurance that it has become considerably lessened. The fact that the monetary flood so far has failed to break the dams protecting our price system augurs well for the future, in which we may find our vast productive capacity an effective neutralizing agent of whatever price-inflationary trends may develop.

Answer: Very Much

(*Continued from page* 174)

pear at the time of depression. Moreover, a large part of our imports consists normally of raw materials which at times are bought at bargain prices. Thus during the 'Thirties, for example, our crude rubber imports cost us only a fraction of what we used to pay during the 'Twenties. On the other hand, the costs (principally labor involved) of fabricating rubber into the tire—which are reflected in the national income figures—went up during the 'Thirties rather than down.

Assuming that the divergence between our national income and the value of imports increases further as a result of the rise in fabricating costs, the national income of $110 billions should mean roughly an import total of $4.75 to $5.0 billions or about twice as much as we imported during the years immediately prior to World War II. A Department of Commerce guess advanced in the recent study "Foreign Trade After The War" is that our imports may well exceed $7 billions, especially if prices are higher. On the other hand, Mr. A. H. Temple, of the National City Bank, told the National Foreign Trade Convention a few weeks ago that post-war imports may not exceed $4.5 billions.

Apart from imports, tourist expenditures are likely to prove a considerable source of dollars that foreign countries may be able to use as payment for our exports. Tourist expenditures are particularly responsive to rising incomes and hence the assumption that they and our shipping expenditures may climb after the war to $1.5 billions may be even conservative. In 1929 our tourist and shipping expenditures amounted to about $1 billion. The national income was then about $80 billions, but its distribution was not as even as we expect it would be after the war.

There are still other sources of dollars: immigrant and charity remittances, interest and dividend payments on foreign investments in this country, payments for imports of silver, and salaries of our government representatives abroad, as well as pensions and royalties payable abroad. In 1929 these various payments came to about $1 billion. The Department of Commerce estimated in its study that together with tourist and shipping outlays they might reach some $3 billions.

Hence, if after the war a degree of prosperity commensurate with a national income of $110 to $120 billions is reached, we might well be able to supply foreign countries with some 7.5 billion in dollar exchange. The Department of Commerce guess is $10 billions. Even if one fourth of this amount is used by foreign countries for their debt service to us, foreign travel here and other payments—as was the case before the war—there will still be available for our potential exports almost $6 billions. With the exception of 1919 and 1920, during which years we shipped large quantities of food to Europe to tide her over the emergency period, our peace-time exports have never reached that figure.

All that boils down to this: if the United States is prosperous, if we do not insist on raising tariff barriers, and if we follow a policy of wise conservation of our natural resources, we can well provide foreign countries with more dollars to pay for our exports—as will be seen from the chart—than they ever had during the years between the two World Wars. We can do it without siffoning gold to this country, and what is most important, without supplying the dollars by means of uncollectible loans. Informed opinion in most of the creditor countries favors only direct investments for the purpose of increasing or diversifying internal production.

Answer: Very Little

(*Continued from page* 173)

tion will be kept low by heavy taxation; few individuals will be able to afford such luxuries as American automobiles, refrigerators and the like. The accent will be on food and clothing, and there may not be enough for quite a while. Still Britain will probably be our best customer after the war. She will require machinery for reconversion and rehabilitation, and raw materials to feed her industries. To pay for it, she will be compelled to compete with us strenuously in the world markets. Yet her export potential for some time will be far from adequate and a mechanism will have to be found to finance her requirements. It will not be too difficult, compared with other countries. While some use of Government credit may be necessary at first, private capital will soon be able to take over.

The Empire countries as a whole should be able to maintain their positions fairly well vis-a-vis the United States. Canada, normally our second best customer, has progressed considerably on the road to industrialization and may henceforth be somewhat less dependent on us. However, as an important exporter of vital raw materials and staples, purchasing power in Canada will remain high and good mutual trade can be expected to continue though the existence of large blocked sterling balances may favor purchases in Britain.

In Latin America, too, fundamentals point to a profitable exchange of goods with the U.S. Bolstered by large dollar balances accumulated during the war, demand at least initially will be heavy to fill the vacuum created by wartime unavailability of merchandise but students of Latin-American affairs warn against overestimating the potentialities.

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Industrialization has proceeded apace below the Rio Grande and expectation is that it will be pushed even farther when peace comes. We may expect a gradual shift in our exports, with slowly declining emphasis on consumer goods and greater stress on capital goods, accompanied by increasing exports of capital for the purpose of direct investment. Over the longer term, export prospects of merchandise may thus not measure up to present optimistic expectations. British competition will also be felt and the severe inflationary tendencies now developing in some of our neighbor countries to the South may further jeopardize trade expansion.

Prospects in the Far East are totally unpromising. China clearly cannot survive without heavy financial assistance from abroad, let alone recover from the ravages of a ten-year war. Conquered Japan, normally our third best customer, will hardly be in a position to resume her former heavy imports of American goods. Moreover, the future status of her erstwhile principal export article, raw silk, has become highly uncertain. Trade with both these countries of the East can only be carried on a heavily subsidized basis, of both short-term and long-term variety which in itself constitutes a limiting factor.

India has become a creditor of Britain, holding large balances of blocked sterling. To utilize them, she will be obliged to purchase in England rather than here. South Africa, Australia and New Zealand find themselves in a similar position which, while not precluding trade with our country, does tend to hamper its natural development.

Russia on the other hand may well become one of our most promising export markets. Her reconversion and reconstruction problems will be stupendous. She faces greater social and economic difficulties than any other member of the United Nations, except China. Need for food, clothing, machinery and goods of every description will be enormous. How is she going to pay for it? Russia will hardly have any export surpluses to speak of, for a long time to come. She could ship gold, of course, of which she is an important producer but no one knows her actual capacity, whether large enough to support adequately whatever financial arrangements must be made to get her on her feet.

Altogether, the world's purchasing power after the war appears hardly sufficient to absorb large-scale American exports on a *sound* basis. Optimists point to the probability of heavy American imports, variously estimated at \$4.5 to \$6 billion annually. These, they say, will provide the outside world with sufficient dollar exchange to buy in the American market. This obviously is a fallacy. Even granting imports of such magnitude, who would primarily benefit?

Before the war, the bulk of our imports came from tropical or Empire countries. They consisted largely of crude rubber from Malaya, coffee from Latin America, cane sugar from Cuba, newsprint from Canada, raw silk from Japan. Also tin from Malaya, furs from Russia and Canada, liquors from Britain, wool from Australia and Argentina, and jute from British India. Assuming a similar structure of our post-war imports, Latin America and the Empire countries will be the chief beneficiaries. The former for some time will stand in no particular need for dollar exchange; rather dollars in the form of capital investments are likely to flow southwards in increasing amounts. In the case of the Empire countries, the dollars thus acquired will exceed actual trade needs and by means of triangular trade will find their way to Britain, in all likelihood reducing the latter's financing needs but not creating new or commensurate demand for American goods. In this fashion, even heavy American imports may fall short of their effect as a trade stimulant.

Europe, our erstwhile principal market, will have little to offer in the way of exports. Production there will be badly needed for reconstruction and to meet urgent home requirements. Europe's export potential, for years, will be severely restricted, in some countries it will be all but non-existent. Europe, except England, cannot earn from foreign trade the dollars required for sizable American imports without impeding its own recovery, depressing its own economy. Thus heavy American imports do not answer the problem. Benefits therefrom will not accrue where they are needed most; instead, a lop-sided structure will be built which under post-war conditions can hardly be corrected by triangular trade.

In effect, and this is the crux of the matter, continental Europe, as a *mutual* trade partner, will be completely knocked out and is not likely to recover as such until reconstruction and rehabilitation is well on its way. Meanwhile the vacuum in world trade thereby created will have a retarding effect all around. This is well recognized by our financial experts who for months have been struggling with this very problem without so far arriving at a practical solution. Chances are it cannot be solved except by a slow and painful process of gradual and well-planned recovery. But under such conditions, world trade after an initial hectic spurt is more likely to languish until the task of reconstruction is completed.

The only alternative appears financial assistance on an unprecedented scale, an extremely risky undertaking which in my opinion will not prove feasible. It is doubtful whether enough popular support could be mustered for it, and enthusiasm would be even harder to arouse should it develop, as it well may, that there will be no particular need for broad foreign markets to keep our workers busy at home. Our own deferred demand is huge enough to absorb the bulk of our enlarged productive capacity and may leave relatively little for export. And the people would hardly take kindly to prolonged and possibly onerous rationing at home to maintain heavy exports to foreign buyers who cannot pay for them. A high volume of trade may thus for a time be maintained along certain particular channels, but pulmotor methods, in the end, are likely to have only adverse influences on international trade.

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